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# ARKETING PROBLEMS

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# PREFACE

THE purpose of this book is to provide concrete problems in marketing for use in instruction. Many of the problems stated here already have been used in the class work in Marketing in the Graduate School of Business Administration, Harvard University, and it is for this class that the book primarily is published. The subject of Marketing, as a field of scientific study and instruction, is in its early stages of development. Consequently, the treatment of topics taken up in this book is far from perfect. This is to be considered a preliminary stage in the systematic development of the subject by the problem method of instruction. Further study and experience will doubtless show many opportunities for improvement and refinement.

The problems are selected to illustrate specific points, to be developed by analysis and discussion. Although frequently the identity of the individual company or establishment is disguised, the cases are based upon actual business experience. The problems are in the form in which they come before business men.

I wish to acknowledge my indebtedness to my former colleague, Mr. Paul T. Cherington, with whom it was my pleasure to discuss several of these problems during the years that we were both engaged in teaching this subject. To Dr. Edwin F. Gay, former Dean of the Harvard Business School, I owe a deep debt of gratitude for the constant encouragement and inspiration that he gave me in the study of Marketing. The actual completion of this undertaking has been due in large measure to the friendly interest and enthusiastic encouragement of Dean Wallace B. Donham.

Cambridge, Massachusetts MELVIN T. COPELAND
June 10, 1920.

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# MARKETING PROBLEMS

# PART I

## INTRODUCTION—MARKETING METHODS*

MARKETING may be defined as a study of the principles that govern the policies of business management in the distribution of commodities from producers to consumers. This includes the activities of retail and wholesale merchants, manufacturers' sales organizations, the various agencies engaged in the distribution of raw materials, and all other means of facilitating and promoting the sale of merchandise.

Take a shoe manufacturer, for example, who has just organized a new business. The first marketing problem for him is the determination of the agencies through which his product is to be sold. He has a choice between selling entirely to wholesalers, entirely to retailers, or to both. He has a choice, furthermore, between the various types of retailers—unit stores, department stores, chain stores, and mail order houses. He probably will find it inadvisable to plan to sell indiscriminately to all these. Some degree of selection will be essential. There is also the possibility that he may elect to operate a chain of manufacturer's retail branches.

Following this selection of agencies, and interwoven with these problems, questions relating to the manufacturer's sales organization arise. How large a salesforce shall he maintain? What plan for management of the salesforce is to be developed? Is a stock department to be operated? Then come the problems of brands. Is this manufacturer to sell his product

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*A substantial portion of this chapter was included in a paper presented at the meeting of the Association of Collegiate Schools of Business, Chicago, May 7th, 1920, and published in *The Journal of Political Economy,* Vol. XXVIII, pp. 375-398.

unbranded, entirely under his own brand, or under wholesalers' and retailers' private brands? What is to be his advertising policy? How are his shoes to be priced? These are typical marketing problems that the shoe manufacturer must consider. Similar problems are of everyday occurrence in many industries and trades.

The methods of marketing merchandise fall into two main groups—(1) methods used in marketing goods for retail distribution, and (2) methods used in marketing goods for wholesale consumption. The marketing processes are essentially different for these two groups of products. For some goods that are to be sold at retail a process of assembling the products of numerous manufacturers or producers is necessary, as in the case of foods sold by wholesale grocers. For others, as in the agricultural implement trade, the products of one manufacturer can be distributed to the retailers frequently without an intermediary process of assembling. The predominant characteristic of the trade in goods sold through retail stores, however, is the distribution of merchandise so that it can be parceled out in small units, retailed to individual consumers who purchase for personal use or gratification.

Take a manufacturer of cotton cloth, for example. In the United States alone, to say nothing of foreign countries, there are more than 100,000,000 potential consumers of his product. Each consumer ordinarily will purchase only a few yards of cloth at one time. The problem of this manufacturer is to find means of securing a distribution of his product whereby as many of these consumers as possible may effectively be given an opportunity to buy these goods in the form and in the quantity that they desire.

The goods that are sold for wholesale consumption include raw materials; semi-manufactured products, such as crude iron and steel and leather; equipment; and machinery supplies. The raw materials must be assembled in large lots and usually it is essential that they be carefully graded. These materials are used in large quantities by individual purchasers. The semi-manufactured materials similarly are sold in large lots according to well-defined specifications or grades. Equipment also is generally a bulk sale, although in some instances this shades down to small individual purchases.

The market for goods sold for wholesale consumption ordinarily is clearly defined and of narrow scope in comparison with the market for goods sold at retail. The purchase of goods for wholesale consumption, furthermore, is determined not by the personal needs or personal desires for gratification of the purchaser but according to purely business considerations of quality, utility, and price. These considerations are governed by the product into which the materials are to enter or by the production requirements of the plant in which the materials or machines are to be used.

Take the market for raw cotton, for instance. There are only from one to two thousand manufacturers in the United States who purchase raw cotton. The number of purchasers of any specific grade of raw cotton is even less. This market, therefore, is one that is clearly defined. It is a market, furthermore, in which the individual sales are large. The problems in this raw material market are quite different from the problems in the finished cloth market, where the cotton manufacturer is seeking to sell his product for distribution to 100,000,000 individual consumers.

Let us consider now the sub-divisions of the methods of marketing each of these groups of products. The methods of marketing goods for retail distribution* are divided into three sections—(1) conditions determining demand; (2) retail trade; (3) wholesale trade.

## *Conditions Determining Demand*

Some of the questions for consideration with regard to conditions affecting demand are the following:—Who will use the product? What are the consumers' buying motives and habits? In what form do they prefer to buy the product?

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* For a statement of the functions of various types of merchants, see Butler, DeBower, and Jones, *Marketing Methods*.

The potential market for a manufacturer of workmen's overalls is definitely limited to men who are engaged in occupations where the use of overalls is necessary. The first task of such a manufacturer is to determine those occupations and the geographical location of the market. His problem is simple compared with the problems of numerous other manufacturers. While there are some products of almost universal demand, such as certain articles of food, nevertheless, in most instances an investigation will show that the purchasers of any product come mainly from particular classes of consumers. As the first step in the determination of marketing methods, it is important that an analysis should be made, to ascertain the definite classes of consumers to be aimed at.

Some of the considerations to be taken into account in this analysis are whether the product is for individual or family use, the age and sex of the users, rural or urban demand, the occupation of the users, racial influences, living conditions such as home ownership, the influence of climatic conditions, provincialisms in demand such as the demand for left-hand plows in some districts or the "yokel" trade in clothing,* and the influence of custom. A manufacturer of a breakfast food, for example, would find difficulty in selling his product on the continent of Europe, because of the long established custom which restricts the continental European breakfast to rolls and coffee.

Buying motives and habits are equally worthy of consideration in the elementary analysis of the market. Groceries, for instance, are in that class of merchandise that ordinarily is purchased where it is most convenient for the housewife. Articles of women's wearing apparel, on the other hand, usually are bought by the shopping process. In purchasing a coat or a gown, the housewife wishes to compare style, quality and price in several shops before making her purchase.

The selection of marketing methods, furthermore, depends upon whether the buying motive is to secure economy in labor or economy in price, to secure durability or to satisfy a desire for a novelty, or whether the purchase is made as a necessity or as a luxury.

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* See also Ray Giles, Odd Buying Habits of the American Customer, *Printers' Ink*, April 22, 1920, pp. 148-165.

Is the article one for which there will be a repeat demand from users? A breakfast food manufacturer, for example, can count upon repeat demand for his product, provided it is satisfactory to consumers. The manufacturer of a vacuum cleaner, on the contrary, can expect repeat orders from consumers only at infrequent intervals. His task is rather continually to dig up new purchasers. The manufacturer of a safety razor cannot expect a substantial repeat demand for the razor itself, but he can count upon a repeat demand for the blades used in the razor. Obviously, the type of sales organization to be developed must be shaped in part according to whether or not a repeat demand is anticipated. These illustrate a few of the buying habits and motives that must be taken into account.

Influences are at work constantly to change buying habits. The increased use of automobiles by farmers, for example, is lengthening the farmers' radius of interest and tending to make the farm demand for numerous personal and household articles more akin to city demand than it has been in the past. The spread of educational facilities and the introduction of better means of transportation and communication constantly are affecting buying habits. Public opinion, finally, may influence buying habits. This public opinion may be expressed in organized form through housewives' leagues, through the label leagues of trade unions, through such organizations as a consumers' league, or it may manifest itself in unorganized form through the development of a sentiment in favor of or against a certain product.

Shall the goods be sold in packages or in bulk? The answer to this question in its last analysis depends upon the preference of the consumers. Attacks upon the package system are of frequent occurrence. Nevertheless, the quantity of goods sold in packages constantly is increasing, not through coercion by manufacturers, but because many consumers prefer to buy the merchandise in that form. General rules cannot be laid down as to whether goods should be sold in packages or in bulk. The problem is one for careful analysis, in each individual case, to determine the marketing methods that are to be used.

The nature of the product and the buying motives and habits of consumers are among the chief influences determining the selection of the type of retail store through which the product is to be distributed.

### *Retail Trade*

A large majority of the retail stores in the United States are unit stores. Sometimes they are called "independent" stores or "regular" stores. A unit store is a store, without an elaborate departmental organization, that is owned and managed as an independent unit for the sale of goods through personal salesmanship. Unit stores are used most extensively for the distribution of merchandise such as groceries, hardware, agricultural implements, shoes, men's clothing and furnishings, jewelry, cigars and tobacco, and drugs.

Unit stores furnish the most numerous outlets for many kinds of merchandise. They provide the only means whereby large numbers of consumers can be reached regularly They are adaptable to the service requirements of their patrons. Frequently the proprietor of a unit store has built up a strong personal clientele. The market for merchandise distributed through unit stores is not dominated by a few large powerful buyers.

A manufacturer who elects to distribute his product through unit stores, however, encounters difficulty in inducing a large number of individual retailers to handle his product effectively. While there are many notable exceptions, nevertheless a substantial number of unit stores are not operated efficiently. The selection of this type of store as the marketing agency, therefore, presents a series of difficult, complex problems.

For some commodities a manufacturer finds it advantageous to select unit stores to act as exclusive agents, one in each locality. This policy is exemplified by several large clothing manufacturers. Other clothing manufacturers, whose product probably is of equal merit, follow the opposite policy of not building up a system of exclusive agencies. There are substantial reasons for and against this system.

Another type of store that generally is operated on the unit principle is the company store. This has come into especial prominence during the last few years of rising prices. The American Woolen Company, for example, established a store at its plants in Lawrence, Massachusetts, in 1919, for the sale of merchandise to its employees. Similar stores have been organized by several other large employers of labor. To the manufacturer or wholesaler seeking distribution for his product, the company store presents a problem because of the doubt as to its permanency and the friction that it causes with many of the unit stores with which it competes.

The retail-wholesale store is another institution that complicates the sales problem for many a manufacturer. Such a store is one that carries on a retail business and also operates a wholesale department. A store of this type ordinarily demands wholesalers' discounts. It is, therefore, in a position to buy goods for its retail department at manufacturers' wholesale prices. Oftentimes it becomes a troublesome competitor of the unit stores to which the manufacturer cannot afford to sell at wholesale and which are forced to buy from wholesalers at prices higher than those at which the retail-wholesale store purchases its merchandise.

The Metropolitan specialty store, especially for articles such as women's wearing apparel, has become an important factor in the sale of some kinds of merchandise. This type of store has operating expenses quite similar to those of the other types of stores with which it competes. Its main advantages appear to be those that accrue from specialization.

A department store, according to the customary usage of the term, is a retail store organized on a departmental system in which one of the large departments is dry goods. Wherein does the department store have its chief advantages? Its size frequently gives it a buying advantage. Oftentimes it is able to obtain wholesale prices or high discounts because of the large quantities that it purchases. Its size, however, does not give it any advantage apparently in operating expenses. From such scanty information as is now available, it appears that the ratio of operating expenses to sales is as high in department stores as in unit stores; frequently the expenses are higher in department stores in proportion to sales. Some of the failures of department stores during the last ten years have been due, there is reason to believe, to a mistaken theory that a large volume of business necessarily means economy in operation.

The chief advantage of a department store, it seems, is the facilities that it offers for shopping. A department store is essentially a shopping institution. It is a strong factor in the trade in women's wearing apparel, for instance; but as a rule the department store has not been able to make a success of a grocery department. It cannot operate a grocery department ordinarily as cheaply as a unit store is operated. The buying habits of the consumers, furthermore, lead them to patronize unit stores for the bulk of their purchases of groceries.

The determination of the buying motives and habits of consumers to whom a given article is to be sold, therefore, plays an important part in the decision of a manufacturer as to whether he will seek to have his product sold through unit stores or through department stores.

A chain store system is a group of scattered stores with single ownership and centralized management. Ordinarily a central warehouse is operated from which merchandise is distributed to the retail branches. The chain store system has the advantages of large scale buying and wide dispersal of the individual retail branches. It has facilitated the development of standardization of equipment and standardization of methods of operation and management. Although there are several noteworthy exceptions, as in the case of a few chains of department stores, chain stores as a general rule have been most successful in marketing those products that ordinarily are sold through unit stores. Chain stores are located at points where it is most convenient for their patrons to visit them.

While the chain store system undoubtedly has definite advantages such as have been mentioned, it also is at a disadvantage in some respects in competition with unit stores. The chain store system is less flexible. It cannot readily adjust its services, such as delivery and credit, to meet the needs of the individual patrons. Moreover, the advantages that the chain store system gains through centralized buying and standardization of management methods are offset, in part at least, by the necessity of operating a central warehouse and especially by the difficulty in securing managers who will take a keen personal interest in the conduct of these stores. Expenses must also be incurred for supervision and for policing the branches; a system of frequent, close inspection is necessary in a chain store system.

Inasmuch as many of the chain store systems have cut prices, they are looked at askance by numerous manufacturers who believe that their main reliance must be placed upon unit stores. The friction between chain stores and unit stores has been a matter of grave concern to many a manufacturer during the last ten or fifteen years.

Occasionally a manufacturer decides that a system of manufacturer's retail branches is the logical outlet for at least a part of his merchandise. The establishment of retail branches by a manufacturer is not ordinarily, however, for the purpose of economy in marketing expense. It seems to have been the general experience of manufacturers who have established retail branches that they are not able to operate their stores more economically than the average unit store or department store is operated. Such branches generally have been established for other reasons. One of these reasons is to insure a steady, sure outlet for at least a portion of the manufacturer's product. There are also several instances in which manufacturers have established a small number of retail branches for educational and promotional work. The L. E. Waterman Company, for example, has a store in New York to provide service to the purchasers of its pens and also to serve as a laboratory in which to study retail problems.* The Dennison Manufacturing Company has four retail branches that are used as agencies for promoting the sale of its products but not in competition with the independent retail stores that carry this merchandise. Whenever a manufacturer decides to open up a retail store, he finds immediately that his action is capitalized by his competitors who seek to develop a spirit of antagonism among retailers on the ground that the manufacturer is entering into direct competition with his own customers.

A mail order house ordinarily is a business that sells at retail from catalogues and not over the counter. The orders are received by mail at a central warehouse whence the goods are shipped to consumers. The chief field for the development of mail order sales has been in the rural districts and small towns. The catalogue of a mail order house gives an opportunity for shopping somewhat akin to the visit to a department store. The large mail order houses, to be sure, have utilized their buying power and their established clientele to sell many products outside the range of shopping goods. Whether a mail order house is able to operate at substantially lower expense than unit stores is a question that has not yet been definitely settled. At all events, concentration of buying power and the tendency to cut prices frequently have caused manufacturers to hesitate to seek distribution of their products through mail order houses.

Cooperative stores have not been sufficiently successful in the United States, up to the present time, to present a substantial marketing problem. A cooperative store, properly speaking, is one that is owned and managed by consumers. The typical cooperative store is organized on the Rochdale plan whereby each member of the society purchases one or more shares of stock at a small amount per share. The number of shares that one member may hold usually is limited, and ordinarily each member has one vote irrespective of the number of shares of stock that he holds. Dividends commonly are paid upon the stock at the ordinary local rate of interest and the remainder of the earnings, aside from such as may be set aside for reserves or surplus, is distributed to the members annually in proportion to their purchases. This system has had a tremendous development in European countries, but in the United States the number of cooperative stores is small and many of those in existence have led a precarious life. During the last eighteen months, the cooperative movement has received a new impetus in this country through the influence of labor union men; this may prove to be a new marketing factor of large significance.

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* John Allen Murphy, "L. E. Waterman Company's Laboratory Retail Stores," *Printers' Ink*, September 7, 1916, pp. 3-4.

Retail public markets present problems of quite a different character from those encountered in other types of retail stores. Municipal markets in which booths are leased to dealers, to be sure, are not far different from other classes of retail stores. Public markets in which producers sell to consumers, however, bring in a new set of problems.

Widespread efforts have been put forth, especially during recent years, in numerous localities, to stimulate the development of public markets of this type. Their success depends upon the buying habits of the consumers and their readiness to go to these markets. Their success also depends upon the readiness of the farmers to spend the time necessary to haul their produce to market and to carry on its sale. Frequently farmers find that this takes too much of their time at a period when their crops need attention. In the larger cities, moreover, the supply of produce from nearby sources is so inadequate for the total needs of the community that large quantities must be shipped in from more or less distant points. Under such circumstances merchants are essential for carrying on the produce business. It may be to the advantage, therefore, not only of the farmers but of the community at large under some conditions to have the bulk of the local produce sold through established trade channels rather than through farmers' public markets.

Wagon retailers include those merchants who do not operate a retail store, except perhaps as an incidental adjunct to their business, but who retail merchandise from wagons that deliver the merchandise at the homes of the consumers. The milk trade is one of the notable examples of business that is carried on by wagon retailers. Suggestions, such as have been made from time to time, that a cooperative system should be used for milk delivery, run afoul of this fact—that the only place of business for the ordinary milk dealer is his delivery wagon. If he gives up his independent delivery system, he practically gives up the individuality of his business.

The ice business is another trade carried on by wagon retailers. In this trade the heavy loss through shrinkage tends to discourage duplication of routes and therefore to result in the development of local monopolies in the ice trade. As in the case of the milk dealer, the ice merchant ordinarily must maintain a delivery system if he is to carry on an independent business. Both milk and ice are commodities of such general use that these trades present unusual marketing problems of broad public policy. Many of these problems have not yet been solved satisfactorily.

The final class of retail merchants includes what may be termed bulk retailers. Examples of this class are coal merchants and lumber retailers. In these trades a merchant necessarily must carry a large stock requiring a heavy investment of capital The trade is seasonal and sales usually are made in bulk lots on specification. The individual consumer seldom visits the place of business of the retailer.

Each of these types of retail merchants presents special problems in store management and also special problems from the standpoint of the manufacturer or producer who undertakes to determine the logical channels for the distribution of his product. The selection of the retail channels to be used, moreover, influences the producer's decision as to the method of wholesale distribution to be utilized.

### *Wholesale Trade*

A wholesale merchant is a business man who buys and sells merchandise on his own account for distribution to retailers in lots smaller than those in which the wholesaler buys. The wholesale merchant is a large factor in the distribution of many products to unit stores. Although there are some manufacturers who sell their merchandise direct to retail grocers, for example, nevertheless they constitute but a small minority. Such manufacturers, furthermore, find it necessary practically to duplicate the organization and to assume the functions of the wholesale grocer, usually incurring at least as much expense as the wholesale grocer incurs in operating his business.

The function of the wholesaler ordinarily is to assemble the products of numerous manufacturers and to parcel these out in such lots as are required by unit stores. The wholesale merchant also performs the function of making collections and bears the credit risk. This is not a small item in many wholesale businesses. The large wholesale merchant oftentimes goes further than this. He assumes the responsibility of specifying what product is to be made and he also may take the responsibility of having the product put out under his own brand or trade-mark, thus entering into competition with the brands of goods carrying manufacturers' trade-marks.

Frequently loose talk is heard about the "elimination of the jobber." This is not, however, a question that can be discussed on the basis of generalization without reference to the functions performed. Each particular case needs to be considered by itself on its own merits. Take a shoe manufacturer near Boston, for example. He is selling his entire output of women's shoes to sixty shoe wholesalers. One salesman, with the occasional assistance of one member of the firm, is able to sell the entire output of the factory. The customers are all of sound financial standing. The manufacturer, therefore, incurs slight credit risk. His shipments are made in large lots. Consequently he can operate with a minimum shipping force and a minimum office force. He also receives valuable guidance from his customers in the selection of styles. In this case, the manufacturer believes that it is to his advantage to dispose of his product to wholesalers. He finds that in this way he can compete effectively with other shoe manufacturers who have followed a policy of selling their shoes directly to retailers.

One of the largest manufacturers of hosiery in the United States has followed a policy of concentrating his efforts upon the problems of production. He sells his entire output to wholesalers. Many fruit and vegetable canners, whose business is highly seasonal, could not afford to operate their plants, if it were not for the assured outlets and the financial assistance furnished them by wholesale grocers.

The specialty wholesaler represents a differentiation from the ordinary wholesale merchants, such as are referred to above. In New York, for example, there are a number of wholesalers who handle only hosiery and knit goods. The tea and coffee wholesaler is another specialty merchant. These specialty wholesalers generally cover a wide territory in the sale of their products and develop a demand through especial care in the selection and quality of the merchandise that they handle.

There are a few catalogue wholesalers in the United States. One of the most notable examples of these is Butler Brothers of Chicago. The catalogue wholesaler does not employ a force of travelling salesmen but sells on mail orders.

Merchants' cooperative wholesale associations, or buying exchanges as they are sometimes called, have been developing more rapidly during the last ten years than prior to that time. The oldest of them have been in existence for twenty-five years or more. These cooperative buying associations have had their greatest development in those trades in which the wholesale merchant is a large factor. They are direct competitors of the wholesale merchant, but in the grocery trade at least the cooperative buying associations deal chiefly in staple merchandise.

The most successful type of cooperative buying association is organized on plans similar to the Rochdale system of consumers' cooperative societies, whereby each merchant, who is a member, has one vote and where the amount of stock that one merchant can hold is limited. These cooperative buying associations do not employ traveling salesmen. They sell only for cash or on very short credit and usually the customers pay for the delivery of the goods that they order. There are frequent instances of associations organized on other principles, and sometimes it is stated that some of them have been promoted by parties who were interested in securing the commission on the sale of the stock rather than in the continued, successful operation of the business. As in other cooperative enterprises the success of the cooperative buying association depends upon the willingness of the members of the association to work together harmoniously and to employ sufficiently expert managers. The most successful cooperative buying associations are made up of retail merchants who are in a sufficiently strong financial position to enable them to pay cash for their purchases.

The fruit and produce trade presents a series of particularly complex marketing problems. These problems, nevertheless, are of wide public interest. They are concerned primarily with the large urban markets. The inhabitants of the large cities and the industrial districts of the United States are supplied with fresh fruits and vegetables from a wide area. The local supplies, in most instances, are not adequate to provide during the entire year for the needs of the people living in these districts. With the improvement in means of refrigeration and transportation, furthermore, producers in distant parts of the country have found that they can cater advantageously to these markets, even to the extent of engaging in specialized agricultural production. As yet the marketing machinery for handling this large volume of trade is by no means perfect. The trade is one of especial difficulties because of the fact that a constant, regular flow of merchandise is essential and also because of the perishable nature of the merchandise, which involves danger of loss through spoilage or through glutted markets.

The commission merchant is one of the chief agencies for the handling of fruit and produce in large cities. Ordinarily the commission merchant receives shipments on consignment from farmers or from country dealers. These shipments are sold at the prices that are current when the shipments arrive. After deducting his commission fee and any incidental expense that he may have incurred, the commission merchant remits the balance to the shipper. This system enables the shipper to ship his merchandise whenever it is ready without awaiting specific orders from the commission merchant. It also enables the shipper to obtain the benefit of the prices that are current at the time that the shipments arrive at the market. Dissatisfaction sometimes occurs, when the shipper does not receive as high a price as he anticipated. This may be due to poor grading, to poor handling in transit, or to an unexpected slump in the market. The commission merchant not infrequently is held responsible by the shipper for the failure to obtain better prices.

Many commission merchants, furthermore, buy and sell on their own account, thus acting as jobbers. This combination of a commission merchant and a jobbing business, while it has some advantages occasionally even to the shipper, has not ordinarily worked out well in other industries in the long run. The conflicts of interest tend to create distrust and dissatisfaction.

In the large urban markets there are several other agencies through which produce may be sold. There are car-lot receivers who buy outright on their own account. Some of these receivers, and also some of the other types of middlemen, send out buyers to purchase produce or to contract for it in the growing districts.

The broker, who handles a portion of the trade in produce, sells for a brokerage fee shipments consigned to him. Ordinarily the broker, however, sells only upon confirmation of the price by the shipper. The broker, as a rule, deals only in car-lots.

The jobber in the fruit and produce trade buys from car-lot receivers, brokers, or commission merchants and sells to retailers. He performs the regular wholesale merchant's functions.

The trade in citrus fruits and occasionally in other products in several large cities is carried on through auctions. These auctions are ordinarily held daily, and sales are made directly at the freight terminal to jobbers and large retailers. The auction system can be used advantageously only where there are large, regular shipments of carefully graded produce.

The most serious problem in the trade in fruit and perishable produce in our large cities is the lack of adequate terminal facilities for handling the trade expeditiously and economically. In New York, Chicago, and Boston the wholesale fruit and produce markets are practically in the same condition that they were twenty to thirty years ago. The volume of the trade has greatly increased; yet these markets are not well situated with reference to shipping terminals. The result is expensive teaming through congested streets; this frequently causes serious deterioration in the produce. While these existing markets may generally be well situated for the jobbing trade, nevertheless they are not satisfactorily equipped for handling car-lot shipments. The provisions of adequate railroad terminal facilities especially equipped for this trade is one of the most urgent marketing problems to be faced.

A notable development in the field of Marketing during recent years has been the growth of the California Fruit Growers' Exchange, probably the most successful example of a cooperative association of producers. The success of this organization has undoubtedly been due in part to special circumstances, such as the specialized, capitalistic nature of the industry, an all-the-year-round production, and previous experience in cooperative efforts for other purposes. Not least, among other reasons, is the distance from the market, which has placed a premium upon the effective control of shipments, with diversion in transit in order to have the fruit delivered at markets paying the best prices and to avoid wasteful gluts.

There are also numerous other examples of successful cooperative marketing associations of producers.* While cooperative methods are far from being a cure-all for the ills that exist in the marketing of farm produce, nevertheless they are achieving enough success to warrant a thorough-going study of the problems of their organization and management from the business standpoint.

The final topic in this section on wholesale trade deals with manufacturers' wholesale branches. Numerous manufacturers have established wholesale branches for the distribution of their products directly to retailers. Thus they have assumed completely the functions and the expenses of the wholesale merchant. In few cases does it appear that there has been a substantial saving in expense by the adoption of this policy. The objects generally have been to facilitate more aggressive selling or to meet some special conditions in the industry.

Frequently a manufacturer feels that his product does not receive enough individual attention from wholesalers and their salesmen. He believes that by coming directly in contact with retailers, he will be able to push his goods more effectively against the products of his competitors. He values the good-will of the retail merchants and believes that he can secure it more certainly by dealing with them directly. In other instances, the manufacturer establishes a system of wholesale branches in order to maintain a more steady production load for his factory; with a system

* See annual reports of State Market Director of California.

of wholesale branches the seasonal fluctuations in the volume of sales may be lessened.

Among the industries in which the operation of manufacturers' wholesale branches is conspicuous is the meat packing industry. Each of the large meat packing companies has a system of branch houses from which its products are distributed directly to retailers. Without entering into the many controversial questions regarding the activities of the packers, it is to be pointed out that the system of branch houses and refrigerator cars enables a packing company to secure a nicer adjustment in the distribution of its products than could be obtained by any other method that has yet been devised. The meat packers, like the growers of fresh fruit and produce, are selling a perishable product. Speed in marketing is essential; only two weeks elapse from the purchase of the steer in the stockyards to the sale of the fresh meat in the distant retail store. The inhabitants of the urban districts require a continuous supply of fresh meat. The failure of this supply would cause hardship and suffering. An excessive supply, on the other hand, would result in waste and spoilage. A continuous flow of fresh meat in such quantities as are demanded from day to day by the various markets must therefore be provided. The organizations of the large packing companies appear to furnish a well-adjusted machine for carrying on this trade with a minimum of economic waste. This is one example of the special circumstances which in some trades have resulted in the establishment of manufacturers' wholesale branches.

To sum up, it is apparent that there are numerous methods of distributing the merchandise that is sold to consumers in retail lots. The competition between various methods is keen; frequently it is bitter. In determining the method to be used in any particular instance, a careful analysis should be made to show which method will reach the consumer effectively, economically and in a manner to build good-will for the future. In solving each of these problems, just as in dealing with other marketing problems, it is only sound business policy to consider carefully how the general interests of the public may best be served.

### *Methods of Marketing Goods for Wholesale Consumption*

The plan to be followed in analyzing the problems of marketing materials, equipment, and supplies for wholesale consumption is essentially similar to that employed in determining the method for marketing merchandise for retail distribution. The consumers in this case generally are manufacturers or other large users of materials and equipment. The nature of the demand is determined by the conditions in the manufacturing plant and by the requirements of the product that is to be turned out. Thus, a worsted manufacturer can use only wool that is suitable for combing; but the grade of combing wool that he buys depends upon the specific kind of cloth that he is to turn out to meet current conditions and styles in the cloth market. The wholesale consumers of any specific material ordinarily constitute a well-defined class.

The raw material trades are bulk trades. The wholesale consumer usually buys in large lots. He also buys in accordance with clearly determined specifications, which require a substantial degree of uniformity in each lot. When these materials are produced in large quantities by individual producers or in close proximity to the point of consumption, the sale frequently is made directly by the producer to the consumer. Thus a coal mining company often sells its product directly to railroad companies and to large industrial plants. The farmer growing sugar beets sells his crop directly to the sugar factory. In many instances these sales are made in accordance with formal contracts calling for deliveries over a period of time.

In other raw material trades, a merchant plays a prominent part. This occurs particularly when it is necessary that the materials should be collected from many small producers, graded, and assembled into large lots of even running grades. For example, much of the raw cotton and raw wool grown in this country and in foreign countries passes through the hands of merchants.

Organized speculation is a feature of the trade in materials of seasonal production that can be graded according to well-established standards into a small number of grades. In the grain trade, the Chicago Board of Trade, the Minneapolis Chamber of Commerce, and numerous other institutions afford opportunities for organized speculation and for hedging operations by merchants and manufacturers. In the cotton trade, the New York Cotton Exchange and the New Orleans Cotton Exchange perform similar functions.

The methods of financing the trade in some kinds of raw materials are highly developed. Thus in the grain trade and in the cotton trade large volumes of loans are made by banks with the use of elevator receipts, warehouse receipts, and railroad or steamship bills of lading as collateral security. To assist the cattle grower in financing his operations the cattle loan company has been developed.

Another method of marketing raw materials is the auction. The auction system, whereby the farmer sells directly to the wholesale consumer in small lots, has largely supplanted other marketing methods in the tobacco growing districts of the southern states. In the fur trade, also, the auction system predominates.

One of the outstanding characteristics of the trade in raw materials is the tendency for the methods of marketing each material to become standardized. New experiments are being tried constantly and new methods developed. But whenever it is clearly established that a new method is more economical than other methods in use, the older methods tend rapidly to be discarded.

The methods of marketing semi-manufactured and manufactured materials, such as pig iron, steel, copper, and leather, include direct sale, selling agents, and merchants. Inasmuch as the merchandise usually is produced in large quantities of specified grade and in turn is sold in large lots by specification to other manufacturers, the marketing machinery necessary for handling these trades is much less elaborate than in most other industries. In each trade the number of producers is small and the number of purchasers also is small. With few exceptions the process of assembling is not necessary, and for much of the trade shipments can be made directly from the plant of the producer to the plant of the consumer without any intervening warehousing. The merchant's function is required only for a small portion of the business which is carried on under special circumstances.

The marketing of equipment is quite similar to the marketing of manufactured materials for wholesale consumption in that the number of producers is small and the number of purchasers also small. Nevertheless, there is one group of problems in connection with the marketing of equipment that is peculiar to this field. With the growth of large manufacturing industries, there has developed a supplementary set of industries manufacturing plant equipment. Thus, there is a group of manufacturers of textile machinery, the manufacturers of shoe machinery, a group of manufacturers of printing machinery, and so on.

The production of these highly intricate machines necessitates an expensive plant and organization for the machinery manufacturer. His field of sale is restricted. Once a new factory is equipped with his product, he cannot expect to sell any substantial quantity of machinery to that same plant again for a long period of time, except for occasional repairs and perhaps for plant extension. He cannot count upon repeat sales in his market such as the steel manufacturer has in selling his product. In times of business depression, moreover, the machinery manufacturer is likely to find his market prostrate.

How are equipment manufacturers to meet this problem? These special circumstances probably constitute one of the chief reasons for the success of the leasing system of the United Shoe Machinery Company whereby the machinery manufacturer is in a position to replace machines at his own option and to encourage new customers to build factories. In the textile field, in times of depression before the war, the machinery manufacturers sometimes adopted a policy of taking stock in new mill companies in exchange for machinery. This was a marketing device to enable the machinery manufacturers to keep their plants in operation.

The marketing methods summarized briefly in this statement are illustrated in the problems that follow.* The selection of the type of agency to be used is one of the fundamental problems in marketing. Other questions of marketing policy, also illustrated in the following problems, include the relation of the sales department to other departments in the business, such as the credit department; the determination of the selling points of the product; brand and trade-mark policies; analysis of the market; selection, training, and management of the salesforce; advertising plans; use of the guarantee; policies for handling cancellations and return goods; and, finally, price policies.

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* Especially valuable suggestions on methods of analyzing these problems are given in A. W. Shaw's *An Approach to Business Problems*, pp. 18-22.

# PART II

## CONDITIONS DETERMINING DEMAND

THESE problems illustrate the influence upon demand, hence upon marketing methods, of the conditions under which consumers live and work, of buying habits and motives, and of consumers' preferences as to the form in which they purchase an article.

### 1. MOHAWK COMPANY—INFLUENCE OF THE CONSUMER

The following statement represents one view regarding demand influence in marketing[1]:—

> Above all looms the manufacturer. Altogether he is the strongest factor in the fight. If he is an advertising manufacturer, he rules the situation, in the last analysis. He has made his goods known, through their trade-mark, to consumers. He is the maker of the things which this country eats, wears, sleeps on, plays with, and works with. Demand is the voice to which all listen, and substitution can only make a feeble effort to resist or modify it.

By the same writer this statement also is made[2]:—

> The consumer holds the key—he will buy where he can get the best goods cheapest.

The following is made by another writer[3]:—

> In a series of one hundred instances where consumers were watched to note how and why they bought advertised goods, eighty-three couched their first question, "Have you so-and-so?" and seventeen, "I want so-and-so." This shows the attitude of the average purchaser when entering a store with the intent to buy. The question "Have you so-and-so?" is a lead for the merchant to put forth his final and necessary sales force. The consumer is simply in an interrogatory attitude.

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[1] This statement is quoted in P. T. Cherington, *Advertising as a Business Force*, p. 32.

[2] *Ibid*, p. 35.

[3] *Ibid*, p. 40.

> With his direct contact, his personal influence, and his final selling talk, the retailer is the power that concludes sales. The influence of the retailer in intimate touch with the consumers is far greater and more effective than that of a distant manufacturer whose appeal is by means of the printed word alone.
>
> No matter how successful selling by threat may have been—with the consumer as the innocent wielder of the "big stick"—the retailer today knows his power. He is no longer susceptible to anything but the direct approach, with goods and prices as the selling basis. This does not mean that he does not recognize and appreciate the wonderful aid of a selling campaign directed by the manufacturer at the consumer. But it means that such a campaign as a selling force from the manufacturer must follow the goods and not precede them in importance.

A third writer makes the following statement[1]:—

> When the consumer buys, *he* does the *choosing.* He asserts his particular individuality. He expresses his likes or dislikes down to the most subtle differences. He weighs values between this and that brand of a similar product. He discriminates; he wants *what* he wants—and he gets it.

The following statements are made by Mr. Emerson P. Harris in his book on Cooperation[2]:—

> In the last fifty years there has grown up, notably in the United States, a system of distribution which, in my opinion, is calculated to influence and does influence the ideals and habits of the people very profoundly. This system does not confine its functions to *furnishing* what it is found that the consumer wants, but exerts a subtle but powerful and far-reaching influence in *determining what the consumer shall want* and what he shall buy.
>
> So it has come to pass that, in spite of society's effort to encourage and educate our power to make independent choices, whether we will spend our money or not and what we will spend it for depends largely upon the will of the producers and distributors of commodities by whom we are assailed. We consumers are about as unconscious of this influence as we are of increased pressure of the atmosphere when we descend from the mountain to the valley, but the facts are fully demonstrated by figures.

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[1] This statement is quoted in P. T. Cherington, *Advertising as a Business Force,* p. 89.

[2] Emerson P. Harris, *Cooperation the Hope of the Consumer*, pp. 5, 6, and 21.

I claim that, through this influence of aggressive marketing, consumers are caused to buy when they should not spend their money; are caused to buy wrong things instead of things suited to their needs; are distracted from choosing wisely and are afforded insufficient facilities to aid in wise selection.

* * * * *

Is the consumer afforded proper facilities to enable him to choose wisely? In the opinion of the writer there is no department in our social life which leaves so much to be desired. We Americans are far abler to turn our efforts into dollars than to turn our dollars into real utility values. We work hard and successfully to earn money, but then we 'spend our money for that which is not bread and our labor for that which satisfieth not.' When our forefathers fashioned with their own hands that which they were to use, the manual effort was an automatic restraint upon spending it for useless things. But we now work for money and have no conception of its value. It is here that we are at sea. In the absence of dominating life purpose and definite plan, we drift. We are peculiarly susceptible to the influence of sales persuasion, printed and oral, and we are woefully without real intelligent guidance.

Considering these statements from the standpoint of the president of the Mohawk Company, recently organized for the manufacture of axes and similar tools, which view regarding the influence of the consumer is correct?

## 2. American Locomotive Company

In 1906 the American Locomotive Company engaged in the automobile business.[1] The company acquired the American rights to the French Berliet car and for the importation of parts and tires from abroad. A large factory was built in Providence, Rhode Island, and $6,000,000 was invested in this automobile business. The car was a mechanical success and sold at a high price. In 1913, the company is said to have ranked third in the United States in the manufacture of commercial motor vehicles. It is further stated that the company established a service station in Long Island City, another in San Francisco, supplemented by headquarters and branch offices in New York, Chicago, Boston, and Philadelphia. For the first three or four years after the company was established, its product was sold entirely through four retail branches. During the next four years eighty-nine agencies were established.

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[1] *Printers' Ink*, August 28, 1913, pp. 82-83.

In August, 1913, the company announced its withdrawal from the manufacture and sale of automobiles and motor trucks. The venture was said to have been unsuccessful from a commercial standpoint. While the location of the factory was considered a disadvantage, the major difficulty was supposed to have been in the sales methods. It was stated at the time the announcement of the discontinuance of the automobile business was made that the company had not realized, at least until too late, that quite different methods were required for the sale of automobiles from the methods used in marketing locomotives.

How do the methods required for the sale of automobiles differ from the methods of marketing locomotives?

## 3. SALE OF FARM PRODUCE BY PARCEL POST[1]

Mr. James Holden, who owns a farm in northern Ohio, has become dissatisfied with the prices paid him by local buyers for vegetables, eggs, and poultry.

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[1] *U. S. Department of Agriculture, Farmers' Bulletin 703:* "Suggestions for Parcel Post Marketing." *U. S. Department of Agriculture, Bulletin No. 688:* "Marketing Berries and Cherries by Parcel Post." *U. S. Department of Agriculture, Farmers' Bulletin 930:* "Marketing Butter and Cheese by Parcel Post."

Consequently he is turning his attention to the possibilities of the use of parcel post for selling direct to consumers.

What conditions must he fulfill in order to build up the necessary volume of parcel-post business and retain the patronage of customers?

### 4. Convenience Goods and Shopping Goods

A distinction based on buying habits frequently is made between convenience goods and shopping goods.[1] Convenience goods include merchandise that ordinarily is purchased at the place that is most convenient to the consumer. Shopping goods include merchandise in the purchase of which the consumer wishes to compare qualities and values.

The Tonawanda Hosiery Company manufactures women's and children's hosiery. Is its product to be considered in the class of convenience goods or shopping goods?

The Raven Manufacturing Company manufactures men's underwear of medium grade. Its brand is widely advertised. Is its product in the class of convenience goods or in the class of shopping goods?

The Dundee Flour Company produces high-grade branded flour. In which class of merchandise is its product to be included?

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[1] C. C. Parlin, *Merchandising of Textiles.*

## 5. BROADWAY DEPARTMENT STORE—SILK BUYING

The silk buyer of the Broadway Department Store, New York City, is responsible for the management of the silk department in that store and for the purchase of silk piece goods. The store aims to be in the forefront in all matters of style.

If a poor selection of merchandise is made, the merchandise is disposed of at mark-down sales, and the department is rated upon the net profit shown on the total sales, including the mark-downs. The purchases of silk goods usually are made two to three months in advance of the opening of the selling season in the retail store.

What style influences must the silk buyer of the Broadway Department Store take into account in placing orders for silk goods?

## 6. LONGSPUR CLOTHING COMPANY—STYLE TENDENCIES

The designer of the Longspur Clothing Company begins the selection and development of the styles for a new season about three months before the salesmen start out to solicit orders from retailers and about eight months before the goods are offered for sale to the public in retail stores. There are two seasons each year, the spring season and the fall season. The Company manufactures men's and youths' clothing in medium-price lines.

What facts can this designer use in judging style tendencies for this business?

## 7. OXFORD ADDING MACHINE COMPANY—NEW MODELS

The Oxford Adding Machine Company frequently brings out new models of its machines. The product is sold direct to consumers by the company's salesmen. To what extent should the company permit its salesmen to solicit orders from customers who already are using earlier models of this company's machines.

## 8. MONTEREY AUTOMOBILE COMPANY—STYLE

During the first decade of the growth of the automobile industry numerous manufacturers brought out annual models of their cars. Some changes were made annually for "style"—that is, merely to have something new and different from previous models. At the present time changes in models are less frequent; many are based chiefly on technical improvements.

Another aspect of the "style" factor in marketing automobiles is indicated in the following statement, quoted from C. C. Parlin: *The Merchandising of Automobiles* (pages 15–16):—

> The pleasure car involves the style element; for the pleasure car is the traveling representative of a man's taste or refinement. Few people see the kind of carpets or draperies we have in our home, but everyone notices the kind of a car we drive, and a dilapidated pleasure car, like a decrepit horse, advertises that the driver is lacking in funds or lacking in pride.
>
> Applied to pleasure cars the style element dictates—
>
> 1. That changes must be made from time to time in those features that determine the appearance and "talking points" of a car.
>
> Style in the automobile means more than paint, upholstery and body lines; it includes all those elements which

are the subject of arbitrary preference. If, for an example, the number of cylinders in a car is selected on the basis of efficiency or cost, the number of cylinders loses the style element and becomes merely a part of the mechanism. But whenever a man selects his number of cylinders merely as a question of preference, to keep up with his neighbor, to have something to talk about, to please a fancy, with him the number of cylinders presents the phenomenon of style purchase.

2. That within any given class a manufacturer cannot get and permanently hold much more than 50 per cent of his market; for a style reaction automatically sets in against anyone who controls a majority of a style market.

What is the significance of these statements, from the standpoint of the Monterey Automobile Company? The Monterey car has a well-established market. Its selling price is about $1,500. The car is well designed and is unusually economical in construction and operation.

## 9. F. W. POND COMPANY—DEMAND

The F. W. Pond Company operates a high-class delicatessen store in one of the large cities in New England. The company contemplates opening a similar store in a residential town about 20 miles from the city in which its main store is located.

What information regarding the possible demand for its merchandise in this new location should be sought?

## 10. BADGER MANUFACTURING COMPANY — BUYING HABITS OF CONSUMERS

The Badger Manufacturing Company produces enamel ware for kitchen use in a wide variety of articles and styles of several qualities. The company has recently decided to start an extensive advertising campaign in order to increase its sales.

What are the buying habits and motives of consumers purchasing such products, which the advertising manager of the Badger Manufacturing Company should take into account in planning this campaign?

## 11. STUMBLO POTTERY COMPANY—VARIETY OF STYLES, PATTERNS, AND SIZES

During the war, in accordance with the schedule of the Conservation Division of the War Industries Board, the Stumblo Pottery Company made a substantial reduction in the number of styles, patterns, and sizes of its product. The Conservation schedule was as follows:

### SCHEDULE FOR MANUFACTURERS OF VITRIFIED CHINA

1. No new moulds to be made during the war for any article not on the restricted list and no new decalcomania patterns or copper plate engravings to be added.
2. No new lines to be placed on the market, even in cases where the decalcomanias or copper plate engravings are made.
3. Special designs already prepared by any pottery not to be duplicated by any other pottery during the war.
4. During the period of the war each manufacturer to restrict his line to not more than two basic hotel shapes, to be known as "Rolled Edge and Thick" or "Rolled Edge and Quarter Thick."

5. Each manufacturer also to restrict his line to one basic shape of dinnerware for family use.
6. The above three lines to be made only in the following articles:

Bakers, Thick 2½″ 3″ 6″ 8″ 10″
Bakers, Rolled Edge 2½″ 3″ 5″ 8″ 10″
Bowls, Thick 24s 30s 36s 42s
Bowls, Rolled 24s 30s 36s 42s
Individual Butters, Thick 2½″
Individual Butters, Rolled 2½″ or 3″
Cake Cover—1
Celery Tray or Relish Dish—1
Coffee Pot—Individual
Cups, Coffee, 3 and saucers to match
Cups, Extra Tea, 2 and saucers to match
Cups, Tea, 3 and saucers to match
Cups, After Dinner, 2 and saucers to match
Cups, Bouillon, 2 and saucers to match
Comports—5″ 6″ 7″
Creams, Individual—1 oz., 1½ oz., 2½ oz., 4 oz. (handled and unhandled)
Dishes, Thick—4″ 6″ 8″ 10″ 12″
Dishes, Rolled—4″ 6″ 8″ 10″ 12″
Grape Fruit Dish—1
Egg Cups—Double Boston Wheat or Custard (unhandled)
Fruit Saucers, Thick—3 sizes
Fruit Saucers, Rolled—3 sizes
Ice Creams, Thick—1 size
Ice Creams, Rolled—1 size
Jugs— 6s 12s 24s 36s 42s 48s 54s 60s 72s
Jugs, Hall Boy— 30s
Match Stand—1 size
Coffee Mug—2 sizes
Mustard—1 size
Nappies, 8″ 9″
Nappies, Cereal— 1 size
Nappies, Oatmeal—1 size
Nappies, Oyster— 5″
Plates, Flat, Thick—4″ 5″ 6″ 7″ 8″
Plates, Flat, Rolled—4″ 5″ 6″ 7″ 8″
Soups, Thick—5″ *or* 6″ (but not both) 7″
Soups, Rolled—5″ *or* 6″ (but not both) 7″
Coupe Soups—1
Sick Feeder—1
Grill Plates—2
Pickle—1
Ramikin—1
Round Salads—4″ 5″ 6″ 7″ 8″ 11″
Sauce Boats—Nos. 1 2 3

Sugars, Hotel—1
Sugars, Hospital—1
Sugars, Restaurant—1
Spittoon—1
Candle Stick—1
Match Safe—1
BrushVase—1
Soap—1

The company sells its product to retailers throughout the Eastern half of the United States.

What conditions influencing demand will guide the Stumblo Pottery Company in deciding whether or not to restore styles and sizes eliminated in accordance with this schedule and also in developing new styles, patterns, and sizes for family use?

## 12. Seneca Flour Milling Company—Package Trade

The Seneca Flour Milling Company manufactures a good quality of flour for household use. This flour is sold in barrels, and also in quarter barrels, 24½ pound bags, 5 pound packages and 3½ pound packages. The retail price for the smaller packages is 25–33% more per pound than the retail price for this flour when sold by the barrel. This higher price is due to the extra cost which the manufacturer incurs in packing and handling flour in small packages. These small packages have a heavy sale in the tenement district in New York City.

Is the Seneca Flour Milling Company justified in selling flour in small packages[1] for this trade at this price differential?

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[1] See P. T. Cherington, *Advertising Book—1916*, pp. 3–8, 497–506.

## 13. DIAMOND SUGAR COMPANY—PACKAGE TRADE

The Diamond Sugar Company operates eight beet sugar factories in Colorado and some of the adjoining states. Up to this time the company has sold its product entirely in bulk. Its sales are made chiefly to wholesale grocers in the Missouri River territory, where its product comes into competition with cane sugar from Eastern and Southern refineries.

Beet sugar was at one time considered to be of somewhat poorer quality than cane sugar and was sold at a slightly lower price. A statement has been made, however, in a bulletin of the United States Department of Agriculture that there is no difference in the sweetness of beet sugar and cane sugar and that experiments have indicated that "under both commercial and household conditions beet sugar and cane sugar give equally satisfactory results for canning fruit and also for jelly making."[1]

Whatever may be the relative merits of beet and cane sugar, nevertheless cane sugar ordinarily is sold at a somewhat higher price than beet sugar in the same markets.

During the last eight or ten years the sales of sugar in packages have heavily increased in the Eastern part of the United States. Package cane sugar is intensifying the competition that the Diamond Sugar Company must meet. This company can sell its sugar in two and five pound cartons at an increased cost to the manufacturer of one-half cent per pound. This additional cost is no greater than the cost incurred by cane sugar refiners in packing their sugar in packages.

Should the Diamond Sugar Company undertake to market at least a portion of its product in packages?

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[1] *U. S. Department of Agriculture, Farmers' Bulletin 329,* May, 1908.

## 14. Milk Trade, New York City

The milk dealers in New York City had to face the following problem in the fall of 1919. Although the figures stated in this problem are not exact, they are approximately correct.

The cost of milk and operating expenses were as follows in September, 1919:

| | Per Quart |
|---|---|
| Cost of milk (Grade B) to the city dealer up to the point of wagon delivery | $0.1175 |
| Wagon delivery | .04 |
| Retail selling price | .16 |
| Net profit | .0025 |

Between September and November the price paid by the milk dealers to the country producers was raised more than one cent per quart. The milk dealers find it necessary to purchase enough milk in the country to insure a sufficient supply in the city at all times in spite of the season or temperature. Consequently there is always some surplus left in the dealers' hands, which must be manufactured into butter, cheese, and other by-products. The by-products manufactured in the autumn usually are sold at a loss as they are forced to compete on the market with similar products that were placed in cold storage in the previous spring, when they could be manufactured in country districts at a lower cost. In addition to this surplus, there is a material shrinkage in buying merchandise by the pound and selling by the package. The higher price paid to country producers increased the cost of this surplus as well as the cost of the milk sold at retail.

Although the increase in the price paid to the country producers was only slightly more than one cent, it was necessary for the milk dealers to increase the retail price in the city two cents per quart in order to make the same profit as before—.0025 cents per quart. The New York retail price in November, 1919, therefore, was increased to 18 cents per quart.

Prior to this increase in price, the load distributed in the city per wagon had been worked up approximately to 300 quarts per day. With the increase in city prices, the average load immediately dropped to about 250 quarts per wagon. From past experience it was known that it would take some time to get back to a normal load. In the meantime the delivery cost had increased from 4 cents per quart to 4.8 cents per quart. This turned the estimated profit of .0025 cents per quart into an actual loss of .0055 cents per quart.

When the increase in the retail price of milk occurred the milk drivers' union demanded an immediate increase in wages from $30 to $50 a week and an additional commission of 2% on sales with shorter hours. If this demand were to be granted, this increase alone would advance the delivery cost of milk more than one cent per quart.

Because of the decreased retail sales, an extra quantity of milk had to be manufactured into by-products. The same price was paid in the country for all milk whether sold at retail or manufactured into by-products. The necessity of using a larger portion of the milk for the manufacture of by-products thus caused an additional loss to the dealers.

The consumers were not pleased with the high price of milk in the city and several organizations united to start successfully a consumers' strike three days a week. On the days when the strike was in effect, each route lost on an average 50 quarts in sales. The other four days each week there was a slight gain, but not enough to offset the loss on other days. The consumers' strike against the high price of milk increased the cost of delivery more than .003 cents per quart.

What policy should the dealers have adopted under these circumstances?

## 15. SAGAMORE TRACTOR COMPANY—INFORMATION TO BE GIVEN TO PROSPECTIVE CUSTOMERS

The Sagamore Tractor Company manufactures tractors that are well built, to stand heavy work. For several years the company has been conducting extensive experiments and also has secured detailed data on the operation of its tractors as used by farmers under a variety of conditions and for varied purposes. As a result, the company has introduced several improvements in its motor over many of the motors used by other tractor manufacturers. It also has improved the design of the tractor substantially in other respects. This experimental work is to be continued. The Sagamore Tractor now is well suited for use on large farms in numerous sections of the country. It is doubtful, however, if this tractor can be used at the present time economically on farms below a certain size and under certain conditions.

In its advertising and sales work, should technical information regarding the construction of the tractor be presented to the farmers who are prospective customers? Should this technical information be specific or general in character? What information should the Sagamore Tractor Company undertake to give to farmers regarding the actual performance of its product? Should the Sagamore Tractor Company advise farmers in any way regarding the limitations upon the use of its tractor?

What advice and service can farmers who purchase Sagamore Tractors fairly expect to receive from the manufacturer?

# PART III

## RETAIL TRADE[1]

THESE problems illustrate the functions, methods, expenses, and some of the common management problems of retail merchants, including unit stores, company stores, retail-wholesale businesses, department stores, chain stores, manufacturers' retail branches, mail order houses, cooperative stores, public markets, wagon retailers, and bulk retailers. Problems in the selection of the type of retail outlet to be employed by a manufacturer or other producer also are illustrated.

### 16. Roanoke Manufacturing Company—Unit Stores

A unit store is a store, without an elaborate departmental organization, that is owned and managed as an independent unit for the sale of goods through personal salesmanship. It is still the most common type of retail store in the United States.

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[1] General references on retail trade are: P. H. Nystrom, *Economics of Retailing* and *Retail Store Management.* P. T. Cherington, *Advertising as a Business Force* and *Advertising Book—1916.* Butler, DeBower, and Jones, *Marketing Methods.* A. W. Shaw, *Some Problems of Market Distribution.* James W. Fisk, *Retail Selling.* Clifton C. Field, *Retail Buying.* W. Sammons, *Keeping Up With Rising Costs.* A. W. Shaw Company, *How to Run a Store at a Profit, Making Your Store Work For You, Attracting and Holding Customers,* and *Making More Out of Advertising.* W. R. Hotchkin, *Manual of Successful Storekeeping.* Curtis Publishing Company, *Selling Forces.* Commercial Economy Board, *Economy in Retail Service.* Bureau of Business Research, Harvard University, *Bulletin No. 2, "System of Accounts for Shoe Retailers," Bulletin No. 3, "System of Accounts for Retail Grocers;" Bulletin No. 4, "Depreciation in the Retail Shoe Business;" Bulletin No. 7, "System of Stock-keeping for Shoe Retailers;" Bulletin No. 10, "Management Problems in Retail Shoe Stores, 1913-17;" Bulletin No. 11, "System of Operating Accounts for Hardware Retailers;" Bulletin No. 12, "Operating Expenses in Retail Hardware Stores, 1917-18;" Bulletin No. 13, "Management Problems in Retail Grocery Stores, 1918;" Bulletin No. 15, "Operating Accounts for Retail Jewelry Stores;" Bulletin No. 16, "Operating Accounts for Retail Drug Stores," Bulletin No. 18, "Operating Expenses in Retail Grocery Stores in 1919;" Bulletin No. 20, "Operating Expenses in Retail Shoe Stores in 1919."*

The files of business magazines, such as *System, Printers' Ink, Advertising and Selling,* contain numerous articles that afford valuable suggestions on the solution of the problems of retail trade. For each trade, furthermore, there are several trade papers.

The Roanoke Manufacturing Company recently put a new baking powder on the market. This company had several other products that were sold chiefly to manufacturers and large-scale users. The new baking powder was the first article that this company had manufactured for household use. The Roanoke Manufacturing Company decided to sell its new baking powder through unit stores.

What are the advantages and the disadvantages of this type of marketing outlet for this product?

What methods can be utilized by the Roanoke Manufacturing Company to stimulate the proprietors of the unit stores to take an active interest in pushing the sale of this product?

## 17. F. K. WILLIAMS—COST OF DOING BUSINESS

Mr. F. K. Williams operates a retail hardware store in a town in New Hampshire[1]. His books show the following entries for the year ending December 31, 1919: net inventory of merchandise at beginning of year $20,733, net inventory of merchandise at end of year $18,377, net sales $61,460, purchases of merchandise at billed cost $43,763, inward freight and cartage,

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[1] See Bureau of Business Research, Harvard University, *Bulletin No. 11*, "*System of Operating Accounts in Retail Hardware Stores; Bulletin No. 12*, "*Operating Expenses in Retail Hardware Stores, 1917-18;*" *Bulletin No. 21*, "*Operating Expenses in Retail Hardware Stores in 1919.*"

$1,197, cash discounts taken $1,242, total expense $13,134.

What were his percentages of gross profit, net profit and total expense? What was his rate of stock-turn?

## 18. ROGERS & BROWN—COST OF DOING BUSINESS

Rogers & Brown conduct a retail grocery store in a town in Pennsylvania. Their statement for the year ending December 31, 1919, was as follows:—Net sales $65,107; net inventory of merchandise January 1, 1919, $7,225; purchases of merchandise at billed cost $55,582; inward freight and cartage $382; cash discounts taken $207; net inventory of merchandise December 31, 1919, $9,778; wages of sales force $4,622; advertising $17; wrappings and other selling expense $373; wages of delivery force $1,134; other delivery expense $793; buying, management and office salaries $1,237; office supplies, postage, and other management expense $92; rent $750; heat, light, and power $276; taxes $97; insurance $200; repairs of store equipment $158; depreciation of store equipment $231; interest on capital—borrowed $97; interest on capital—owned $606; miscellaneous expense $394; losses from bad debts $134.

The proprietors of this store believe that their business might be made more profitable. What suggestions should be given them for analyzing their business in order to learn how it may be made to show greater profits?

## 19. BURNSIDE CLOTHING COMPANY—FLAT MARK-UP

The Burnside Clothing Company has a store situated in a suburb of Chicago. This suburb has a population of about 50,000 people. Three neighboring suburbs have a population of about 12,000 each. These suburbs are located about 12 to 15 miles from the center of the city. The three smaller suburbs have electric car service to the large suburb, which in turn is connected with the city by steam and electric lines.

The annual sales of this retail store, which sells men's shoes and men's clothing, are about $175,000 roughly one-third shoes, and two-thirds clothing. Of the shoes sold about 65% retail for $8.00 per pair, (1918 prices), about 25% for less and about 10% for more than that figure. This store competes at present mainly with smaller suburban stores in medium and low-price goods and with large city stores in medium and high-price goods. The sales of the shoe department of this store now yield an average gross profit of 32%.

The proprietors of this store propose in the future to sell all shoes at a flat gross mark-up of $1.00 per pair. For example, a pair of shoes costing them $5.50 would be sold at retail in this store under the new plan at $6.50. This policy they propose to make the most conspicuous feature of their advertising. They also propose to preserve the quality of their goods. The mark-up on clothing would continue as at present.

What probably would be the effect on their trade of the adoption of such a policy? Is it advisable for them to adopt it?

## 20. TRIPOD RETAIL GROCERY COMPANY—THREE-WAY PLAN

The Tripod Retail Grocery Company operating a high class retail grocery store, selling both staple goods and fancy groceries, adopted the so-called "three-way plan" in November, 1917, to meet war conditions. Its goods were all priced on a cash, non-delivery basis. For delivery an extra charge was made, and any customer who desired a credit account was required to pay a specific amount monthly for that service.

The company operated several branches and its sales were upwards of half a million dollars a year. During the war this change in policy was successful; it enabled the company to operate with fewer employees and to price its goods at lower figures. It also aided the company in meeting chain store competition. Although several competing unit stores tried this three-way plan, few of them adhered to it for any length of time.

Was it advisable for this company to continue to use the three-way plan after the end of the war?

## 21. MONADNOCK FOOD PRODUCTS COMPANY—DEALER HELP

The Monadnock Food Products Company is considering the adoption of some plan of dealer help, in order to strengthen its prestige among the retail merchants who sell its products. The company produces high-grade canned goods. It employs specialty salesmen for soliciting drop-shipment orders from retailers.

On making inquiry, it has found that one large firm of wholesalers in the hardware trade has one man on its staff who devotes practically all his attention to advising retail customers regarding their problems in store management and in keeping their accounts. Butler Brothers, catalogue wholesalers in Chicago, furnish advice to prospective customers regarding advantageous locations for opening new variety stores. Butler Brothers also assist their customers in planning special sales and in getting out store papers. They arrange to furnish price tickets, window cards, and other features that are necessary for special sales. They also prepare and furnish copy for circulars and sales announcements.

John Lucas and Company, paint manufacturers of Philadelphia, have adopted a plan which they call "100% Selling," whereby each customer who is interested is given a list of questions to answer.[1] These questions are expected to indicate the strong points of the retailer in managing his business and also to suggest the opportunities for improving his methods. They cover accounting methods and especially selling policies and methods of increasing sales.

The Sherwin-Williams Company of Cleveland, paint manufacturers, have a retailers' service department[2] which furnishes advice to customers regarding accounting, display, and other problems that arise frequently in these stores. Several other manufacturers in various industries have adopted similar plans for "dealer help."[3]

What plan of "dealer help" is likely to prove most effective for the Monadnock Food Products Company?

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[1] John Lucas & Co., *100% Retail Selling.*

[2] Frederick C. Kuhn, "How to Establish and Carry On an Effective Service Department for Retailers," *Printers' Ink*, February 8, 1917, pp. 3-12, 102-106.

[3] See also P. T. Cherington, *Advertising as a Business Force*, pp. 127-155 Kendall Banning, "Why He Lost My Trade," *System*, June, 1916, pp. 628-635.

## 22. Georgian Clothing Company
## Exclusive Agency

The Georgian Clothing Company of New York City has been developing leadership in the style and quality of the boys' clothing that it manufactures. The company has decided to adopt a system of exclusive agencies throughout the United States for the sale of its product. One retailer in each city or town will be given the sole right to sell its product in his territory. The product is to be branded and advertised by the manufacturer. Such advertising as retailers undertake will be on their own account.

What are the advantages and the disadvantages to the Georgian Clothing Company of using this system of exclusive agencies?[1]

Mr. W. K. Smith, who operates a clothing store in one of the larger cities, has been given the opportunity to become the exclusive agent for the Georgian Clothing Company in his territory. What would be the advantages and the disadvantages to him of the exclusive agency plan?

## 23. Penwick Company—Exclusive Agency —

The Penwick Company operates a large retail and wholesale grocery business in Philadelphia. It specializes in fancy groceries and imported goods sold under its own brands. It also sells large quantities of staple groceries. The traveling salesmen for its wholesale department cover a territory of about 300 miles radius from Philadelphia.

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[1] S. Roland Hall, "National Advertisers Estimate Value of Exclusive Agencies," *Printers' Ink*, September 4, 1913, pp. 3-11. M. Zimmerman, "An Investigator's Report on Exclusive Agencies," *Printers' Ink*, April 30, 1914, pp. 37-47; May 7, 1914, pp. 84-92; May 28, 1914, pp. 76-84.

Mr. J. K. Lawson, who operates a grocery store in a town in New Jersey, has requested the exclusive agency for Penwick goods in his town. The town where his store is located has a resident population of 2200. During the summer months the population is increased by the influx of over 1000 people each year, from Philadelphia, New York and other cities. These summer visitors are well-to-do, and many of them own cottages and summer homes in this town. There is also a large summer hotel in the town. In addition to the Lawson store there are three other grocery stores. These other stores are less attractive in appearance and poorer credit risks. The Lawson store is unquestionably the best, and it has a good credit rating.

The Penwick Company has sold to all these stores in the past. It also has sold direct to the hotel. The retail branch of the Penwick Company, furthermore, ships mail orders by express direct to consumers in this town during the summer. Other wholesale grocers in Philadelphia and New York compete for orders from retailers and the hotel.

The Penwick Company never has granted exclusive agencies. If this request of Mr. Lawson is granted, it would be for an indefinite period which could be terminated at will by either party. The Penwick Company, furthermore, would not be obliged to discontinue its sales to the hotel or to refuse the acceptance of mail orders direct from consumers.

Should the Penwick Company grant Mr. Lawson the exclusive agency?

## 24. Ironstone Company—Sale of Stock to Customers

The Ironstone Company, with a small plant in Pennsylvania, manufactures hammers. The company has a well-established reputation. Its annual sales amount to $300,000. Its product is sold to about one-fifth of the hardware stores in the United States. The Ironstone Company now proposes reorganization. The main features of the plan are:—a stock company with a capitalization of $400,000 ($200,000 preferred and $200,000 common). The common stock is to be absorbed by the present company for the plant at appraised value, about $50,000, and the remainder for trademark, goodwill and selling rights. The preferred stock is to be offered to the hardware trade exclusively (including both retailers and wholesalers). The preferred stock is to be issued in $100 shares. The minimum holding is to be $200. Each preferred stockholder is to have exclusive local right to own stock and to sell this product. The preferred stock is participating, voting, but not cumulative. All earnings above 7% on the entire capital, and a suitable reserve, are to be divided equally among both kinds of stock. The business of the Ironstone Company is to be expanded, if this organization is sufficiently successful, to manufacture and sell other hardware products.

Mr. W. K. Barlow, a hardware retailer, has been offered the opportunity to become the exclusive stockholder of the Ironstone Company in his city. Mr. Barlow operates a retail hardware store with annual sales of $87,000. The business is that of a typical hardware retailer and shows about the average profits.

What must Mr. Barlow consider in deciding whether or not to purchase this stock?

## 25. PENSACOLA IRON WORKS—COMPANY STORE

The Pensacola Iron Works, which employs about 2,000 men, has been requested by a committee of employees to establish a store[1] for the sale of food products. It is proposed that the merchandise should be sold at prices that would cover the wholesale cost plus the actual operating expenses of the store. The Pensacola Iron Works would assume the responsibility for the management and operation of the store.

The plant of this company is located in the southern part of a city of 25,000 population. There are good street car connections between the plant and other parts of the city. The store, if opened, would be located close by the manufacturing plant or in one of its warehouses.

At the present time there are about a dozen retail grocery stores in the city. These stores are operating under typical conditions.

Should the company comply with this request?

## 26. MANITOWOC HARDWARE COMPANY—RETAIL AND WHOLESALE STORE

The Manitowoc Hardware Company operates a large retail hardware store in Wisconsin. The annual sales of this company are approximately $172,000.

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[1] Numerous company stores of this sort have been established during the last few years by industrial and public service companies. The Interboro Rapid Transit Company, for example, established a store in New York City which was successful for a few months, but which thereafter lost its patronage and the company closed it. The American Woolen Company established a store at its mills in Lawrence, Massachusetts, in 1919, in order to reduce the cost of living, according to the published statements.

In addition to these company stores of recent origin, there are also a substantial number of commissaries operated by mining companies, lumber companies, and similar enterprises. The commissaries are generally operated with a view to showing a nominal profit.

The company has the exclusive agency in its territory for a widely advertised brand of paint, which it buys direct from the manufacturer. It also buys some other products direct from manufacturers, but for a large portion of its purchases it finds it necessary to go to wholesalers. The company's business has been steadily expanding, and the company is in a strong financial position. The town in which the store is located is surrounded by a rich agricultural country and new industrial enterprises are being started from time to time.

Although the Manitowoc Hardware Company has no specific grounds for complaint against the wholesalers from whom it purchases, it believes that it might be able to secure some saving in its purchases if it were able to buy direct. The company therefore is considering the establishment of a wholesale business to be operated jointly with its retail store.

What specific problems will the Manitowoc Hardware Company encounter,[1] if it does attempt to operate a retail-wholesale business?

## 27. CHATHAM COMPANY—DEPARTMENT STORE

A department store, according to the customary usage of the term, is a retail store organized on a departmental system in which one of the large departments is dry goods.

The Chatham Company, a department store located in one of the large cities, has an annual volume of sales of $21,000,000. Its operating expenses are approximately $5,890,000 a year. It is a typical department store.

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[1] See Arthur Cobb, Jr., "Curbing the Retailer's Jobbing Ambitions," *Printers' Ink*, April 29, 1920, pp. 105-115.

Wherein lie its chief advantages in competition with other types of retail establishments?

The following statement was made in an editorial in a business magazine in 1917:—

> The principal trouble is that the department store is top-heavy. It is burdened with an unwieldy service system that from very simple beginnings has grown to be so luxurious and so wasteful that it saps the efficiency of the store.
>
> But though this amazingly ramified gratuitous service may be burdensome, it seems to be absolutely essential to the department store, as at present conducted. It is the store's greatest asset—the *raison d'etre* for this system of retailing. In the first years of the department store, economy was its chief appeal and could have been made truthfully. This is no longer the case.
>
> The department store idea came into existence in this country in the price readjustment period following the Civil War. At that time the prices of nearly all commodities began to drop. Competition became keen and the old school of retailing was sorely tried. New methods of selling came into vogue. Gradually the plan of buying for cash, selling at a small profit and turning goods rapidly came into being. The "sale" became popular. It was in this period that a great impetus was given to production, owing to the widespread adoption of machinery in manufacturing. But there were no well-established channels of distribution at this time and manufacturers did not know how to create markets as they do now. Consequently over-production often resulted. Goods had to be sold to the best bidder. These conditions favored the price-selling methods of the department store and fostered its growth.
>
> Then, gradually, the idea of trade-marking begun to spread. Advertising gave branded articles a national standing. Distribution was standardized, and advertising manufacturers were no longer at the mercy of sellers. This movement toward the nationalization of merchandise has been going on for thirty years. Many department stores have always opposed it. Even to-day much of their advertising and merchandising is based on the old methods that prevailed when markets were demoralized and when manufactured articles had no identity and no standing with the public. Working as they are against the current in distribution, is it any wonder that department stores have found the adoption of unlimited service so essential to their existence?

What reply to this statement should be made by the president of the Chatham Company.

## 28. ORCHARD COMPANY—SCRIM CURTAINS

The Exeter Company has been organized to engage in the manufacture of high grade scrim curtains, the plant to be located in New York City. The manufacturing capacity will be as large as that of any individual competitor. Credit resources are ample. The type of sales organization to be formed depends upon the method of distribution adopted.

Through what class of retail stores can the Exeter Company expect to sell its products to the best advantage?

## 29. TITAN COMPANY—MEN'S FURNISHINGS

The Titan Company, which manufactures men's furnishings, has built up a large market for its product in the East and Middle West. The bulk of its output has been sold under retailers' private brands to department stores. The company is now considering the possibilities of developing its trade in the South.

What changes in its selling policy probably will be necessary for that market?

## 30. Laurel Clothing Company—Exclusive Agency

The Laurel Clothing Company wishes to secure an exclusive agent in a large eastern city. The company has a strong, well-established reputation for good quality clothing for men, in conservative but up-to-date styles. It advertises nationally. Heretofore the company has sold clothing unbranded to several stores in this city. Now it wishes to have its branded product featured in this city and has decided that some sort of an exclusive agency plan is desirable.

In this city there is a department store of good reputation which handles clothing, but does not have the exclusive agency for any manufacturer. There are also several small clothing stores which might be considered for agencies.

What reasons favor the selection of the department store as the exclusive agent? What considerations favor some one of the available specialty clothing stores?

## 31. W. K. SMITH—LADIES' READY-TO-WEAR DEPARTMENT

Mr. W. K. Smith has operated a men's clothing store in the shopping district of one of the larger cities of the United States for a long period of years. The name of this store is well known and it has a well established clientele. It carries a full line of men's and boys' clothing and furnishings. The merchandise that it sells is of good quality and medium priced.

Recently several department stores in the same district have opened men's clothing and furnishings departments. To meet this competition it has been suggested that Mr. Smith should establish a department for ladies' garments and other wearing apparel in his store.

Is this likely to be an effective means of competition?

## 32. SIEGEL COMPANY

The Siegel Company went into bankruptcy December 30, 1914. The following subsidiaries were involved:—14th Street Store, New York; Simpson & Crawford, New York; Henry Siegel Company, Boston; Henry Siegel & Company (bankers and wholesalers), New York; Merchants Express Company, New York. Two other subsidiaries, operating department stores, later became involved.

The store operated in Boston was one of the largest department stores in the city. When Mr. Siegel went to Boston, is was stated that he declared that he was willing to pay $1,500,000 for the good-will of a department store in this city. He was not able to find an opportunity to purchase; therefore, he built a new store which was opened in 1906 at the corner of Essex and Washington Streets, several blocks distant from the other department stores of the city. It was stated that he believed that he could establish a good-will by spending $1,000,000; that is, he expected to lose $500,000 the first year, $300,000 the second year, and $200,000 the third year, but to be able to show a profit soon thereafter. It was further stated that with sales of $5,000,000 he figured a loss, but with sales of $7,000,000 a profit. As a matter of fact, it was reported at the time of the failure that the sales never had exceeded $6,000,000 a year, and that in 1912 the net profit was only $50,000.

What factors apparently were given insufficient consideration in establishing this store in Boston?

## 33. GRANITE DEPARTMENT STORE COMPANY—FURNITURE DEPARTMENT

March 21, 1919.

Bureau of Business Research,
Harvard University,
Cambridge, Massachusetts.

Dear Sirs:

One of the most fruitful fields of investigation would be that of furniture, and I am placing this matter before you in the hope that your department will take up this branch of retailing and attempt a similar reform. So far as the retail department stores are concerned, I believe there is no department that is less scientifically managed than furniture. The turnover is very small, the investment is very large, and the amount of floor space necessary for proper display requires an expenditure of rent that in Cleveland has driven all but two of the important furniture departments of this city into outlying districts.

What has made good operation in furniture difficult has been the attitude of the average department store owner.

In the first place, the department store proprietor or manager as a rule is not primarily a furniture man. His furniture department has been a later addition to his already substantial growth. Secondly, he has hesitated, because of his ignorance, to apply the principles of stock turnover and merchandising which have been successful in his other departments, because of the representations made by so many in the furniture field that a good turnover is impossible. Thirdly, the character of relationship which exists between the furniture manufacturer and the retail buyer of furniture has been developed in a way that is not productive of the best results. The semi-annual furniture shows at Grand Rapids have had a tendency to make the buyer purchase less frequently and more in bulk at each period, and due to the competition created by the manufacturer between prospective purchasers of furniture all in the market at the same time, the average buyer has exhibited a tendency to over-reach in his purchasing.

Briefly, these are the principal problems with respect to the furniture business. I am writing you principally because I believe that the number of departments in this line that are making money is a very small one and that a little reform in the right direction would make it possible for a large number of them to come out on the right side of the ledger.

Yours very truly,
The Granite Department Store Company,
——————, *President.*

What considerations, other than those mentioned in this letter, should be taken into account by the chief executive of a department store who is prompted to give especial attention to his furniture department?

## 34. LAPWING COMPANY—BUYING SILK GOODS

The Lapwing Company, a department store in a New England industrial city of over 100,000 population, with annual sales of $750,000, had placed orders on November 1, 1919, for 50% of its supply of silk piece goods for the coming spring season. This was in accordance with its general policy of ordering about one-half of its supply at the first showing of goods by the manufacturers.

The sales of the dry goods department, including all kinds of piece goods, then amounted to approximately 55% of the total sales in the store.

In view of the conditions in the silk market on November 1, 1919, and of general business conditions in this country and foreign markets at that time, the president of this store had occasion to consider whether he should immediately increase his orders for silk piece goods for spring delivery or hold his orders as they stood, postponing additional purchases until later. On the basis of the information then available,[1] what policy should have been followed?

## 35. CHAIN STORES

A chain store system is a group of scattered stores with single ownership and centralized management.[2] Mr. Charles K. Stevens, a financier with extensive experience in wholesale business, is contemplating a substantial investment in a chain store enterprise. He desires information on the following points:—

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[1] See trade papers, such as the *American Silk Journal*, *Textile World Journal*, *Textiles*, *Textile Recorder*, *Dry Goods Economist*, *Women's Wear*, *Daily News Record*, *New York Journal of Commerce;* also Chittick, *The Silk Industry*, *U. S. Monthly Summary of Cotton and Finance Silk Manufacturing and Its Problems*, *U. S. Monthly Summary of Cotton and Finance.*

[2] A particularly good description of the organization of the United Cigar Stores is given in P. T. Cherington, *Advertising as a Business Force*, pp. 172-182. A series of articles on chain stores that appeared in *Printers' Ink* are given in condensed form in P. T. Cherington, *Advertising Book—1916*, pp. 229-286. See also G. A. Nichols, "United Retail Stores Invade Many Fields of Merchandising," *Printers' Ink*, April 15, 1920, pp. 153-172; C. P. Russell, "The Winchester Plan," *Printers' Ink*, March 18, 1920, pp 77-84, 193-196; J. M. Gries, "Line Yards (The Chain Store in the Lumber Trade)" *American Lumberman*, March 15, 1919, pp. 50-51, March 22, 1919, p. 40, March 29, 1919, p. 38.

In what trades are chain stores operating?

Why is this type of organization particularly suited to these trades?

Wherein does the chain store system have advantages in competition with other types of retail establishments?

What are its limitations?

## 36. PETER BROWN—CHAIN STORES

June 21st, 1915.

Bureau of Business Research,
Harvard University,
Cambridge, Mass.

Gentlemen:

I am seriously considering the chain store proposition. Our firm has been established here for over fifty years and we have always had the reputation for good quality. Our down-town store is very complete and up-to-date in every way. The first of the year I had to take hold of the management as my manager was not looking after things. I had many other interests and paid very little attention to the grocery business. Since I have taken hold we have had much more efficiency in every department. You may be interested in knowing our monthly expense has been reduced 15% and our volume increased over 25%.

In getting back into the harness I have again begun to get interested in the grocery business. I find after very careful consideration the down-town store is losing its hold and in large cities it will never be the factor it has been. The expense of conducting a complete table supply house is out of all reason in comparison with the margin of profit. With our reputation and well known name, we could establish one or two hundred stores, and I am sure we would make a wonderful showing.

Very few men have given the study to the grocery business that I have, and I think I am conversant with every phase of it from office to delivery. I expect to increase our capitalization and get about $50,000 new capital. I am sure this is all we ever will need as new stores will take care of themselves.

This city presents an exceptional opportunity as the chain now established handles mostly inferior quality. My idea of chain stores is to handle good quality and sell nothing that is inferior. Good quality does not necessarily mean high prices. It depends on the buyer entirely. It would be very simple for me to get started, as I have the down-town store doing an annual business of over $500,000, a warehouse, and a very efficient system. I have a store in Indianapolis and have had stores in other cities, but have not had a chain in this city. Before trying to interest new capital I am very anxious to get data from others, and if it is possible I would like to get information on the questions attached hereto, and will appreciate receiving any information you can give me.

Assuring you that any information that you can give me will be held strictly confidential, and thanking you for same, I am

Yours very truly,
(signed) Peter Brown

How much capital is necessary to conduct Main store and 20 Branches, main store doing a business of $500,000 per annum, of which $300,000 is fresh meats, fruits and vegetables, dairy and bakery? A stock of $10,000 would be all that would be necessary for this Main store, if warehouse supplied stock daily.

How much stock is it necessary to carry in each store?

How much stock is it necessary to carry in warehouse?

How far is it expedient to go in the manufacturing line in bakery, coffee roasting, etc.?

Is it advisable to have private labels or use manufacturers' labels?

What per cent of profit should the warehouse have from each store?

Percentage of gross profit of Branch stores?

Percentage of expense of Branch stores?

What is the average weekly volume of business of chain stores?

How many employees to each store?

Salary paid to manager?

If bonus is paid, is it paid out of the net profits or out of gross receipts over a given amount?

Average rent of stores?

Is it advisable to carry meats? Fresh fruits and vegetables?

How many stores should an inspector have supervision of?

What salary should be paid him?

How often should inventory be taken?

Should merchandise be billed at retail selling price or at warehouse price?

Should any bulk goods be sent to chain stores or should everything be put up in packages before delivery to stores?

How much should be spent in advertising, and what per cent should each store bear?

What method is generally used—newspaper, circulars, or other methods?

How much is allowed for fixtures and equipment of each store?

What method is used for collecting the money from stores?

Has it proven profitable to keep stores open evenings?

Have check-printing Cash Registers been used?

Is it necessary or expedient to give stamps or premiums?

## 37. Kearsarge Company—Chain Stores

Golden & Company, a firm of investment bankers, were requested in 1919 to purchase 5,000 shares of preferred stock to be issued by the Kearsarge Company, operating a chain of twenty-five and fifty cent stores. The

Kearsarge Company had a capitalization of $150,000 common stock and $150,000 preferred stock. The new issue of stock proposed was $500,000, 7% cumulative, participating preferred stock. Practically all the holders of the previous issue of preferred stock had agreed to convert their shares into the new issue. The new issue of preferred stock was to be redeemable as a whole or in part at 110 on thirty days' notice.

The Kearsarge Company had no bonded debt, and it was agreed that no mortgage might be placed on the property without the consent of three-fourths of the outstanding participating preferred stock, except that there might be a purchase money mortgage on property acquired. It was further provided that the cumulative, participating preferred stock should receive up to an additional 1% dividend whenever net earnings for one year available for dividends on the common stock exceeded $80,000. There was to be a sinking fund, beginning in 1921, of 3% per annum of the outstanding participating preferred stock. It was stated that the annual net profits of the company had averaged for the past five years about fifteen times the dividends on the then outstanding preferred stock and were equal to almost 3½ times the 7% dividends on the participating preferred stock to be issued.

The sales of the Kearsarge Company had been approximately as follows: 1914, $2,500,000; 1915, $3,000,000; 1916, $3,600,000; 1917, $4,500,000; 1918, $6,000,000. The balance sheet was satisfactory. The receipts from the sale of this new stock were to be used for reducing current liabilities and providing funds for the expansion of the business.

It was stated in the letter to the bankers that the Kearsarge Company operated a chain of so-called department stores located in important cities throughout the Eastern half of the United States. The stores sold merchandise ranging in price from one cent to fifty cents, but it was estimated that 90% of the business was done in twenty-five and fifty cent goods. The first store of this company was established in a manufacturing city in New England in 1907.

The Kearsarge Company has a profit sharing plan with the managers of the stores. It was stated, furthermore, that in each store the company had two to five young men in practical training as managers of future stores which the company planned to open. The branches of this company were located in different cities, thus tending to prevent business from being adversely affected to any great extent by fires, strikes, or other local conditions that do not affect the country as a whole. The company sold only for cash and did not operate a delivery system.

What additional information on the management of these stores would be useful to the investment bankers in deciding whether or not to purchase these securities for sale to their customers?

## 38. National Hardware Stores, Inc.

The following statement describes the plan of organization of a chain of retail hardware stores.[1]

The National Hardware Stores, Inc., has been incorporated under the laws of the State of New York, with the usual nominal capitalization at the start of similar large enterprises, shortly to be increased to $1,000,000 of preferred stock and 60,000 shares of common.

The corporation is formed under the recent "No Par Stock" act which is intended to prevent over-capitalization, and is the first hardware enterprise to take form under that act.

The new corporation proposes to operate a chain of retail hardware stores. As a nucleus it is consolidating a group of established stores located in selected towns in the Eastern states, and, later on, expects both to acquire additional established stores and to open new ones throughout the country.

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[1] This statement is reprinted from the *Hardware Dealers' Magazine*, June, 1917, pp. 135-138, by permission of the National Hardware Stores, Inc.

The plans of the organizers are very complete and comprehensive, and are devised to provide, from the central office, scientific merchandising, modern sales promotion and detailed accounting for the stores comprising the chain. These plans will interest the hardware trade, and are here briefly described.

The organizers believe there are large profits to be made in the merchandising of hardware, by closely watching the amount of capital invested in various stocks.

The plan contemplates the operation at the central office of a perpetual inventory for each store, secured by means of merchandise code numbers and operated by an electrical machine called the Hollerith Tabulating Machine.

The merchandise code is simply a stock number used in place of the manufacturer's number, except that it goes further and covers the name of the article, description, quality and size. It completely describes the article without the use of words, and is marked on the price-tags, boxes and samples.

The use of these descriptive numbers permits stock records to be made up at the central offices on the tabulating machine very rapidly and at low cost. This machine was originally designed for use in the Census department at Washington. It has since come to be used in the big railroads, life insurance companies and great manufacturing plants of the country. One of the large retail mercantile businesses of New York has for the past five years kept its stock records by a numeric code system which was devised by one of the organizers of the National Hardware Stores, Inc.

The Hollerith Tabulating System, as this electrical machinery is called, consists of three parts: a key punch, a sorter and a tabulator.

The detail of a transaction, such as a sale of merchandise, is punched on a specially designed card, which shows the salesman's number, the code number of the goods, the quantity and the selling price, the data being taken from the sales ticket made by the clerk, who sells the goods and copies off the marking on the goods or box. The punching is done in the central office, and is very rapid, operators frequently doing four hundred cards an hour.

These cards thus punched are sorted electrically by salesmen's numbers and the amount of sales for each clerk then tabluated. They are then re-sorted by merchandise codes and filed by stores and stock numbers in open file boxes where they are quickly available for making up stock records showing sales and stock on hand in each store.

The sorting machine sorts the punched cards at the rate of one hundred and seventy-five per minute, and the adding of the amounts on the cards by the tabulator is done at the rate of one hundred and twenty-five per minute.

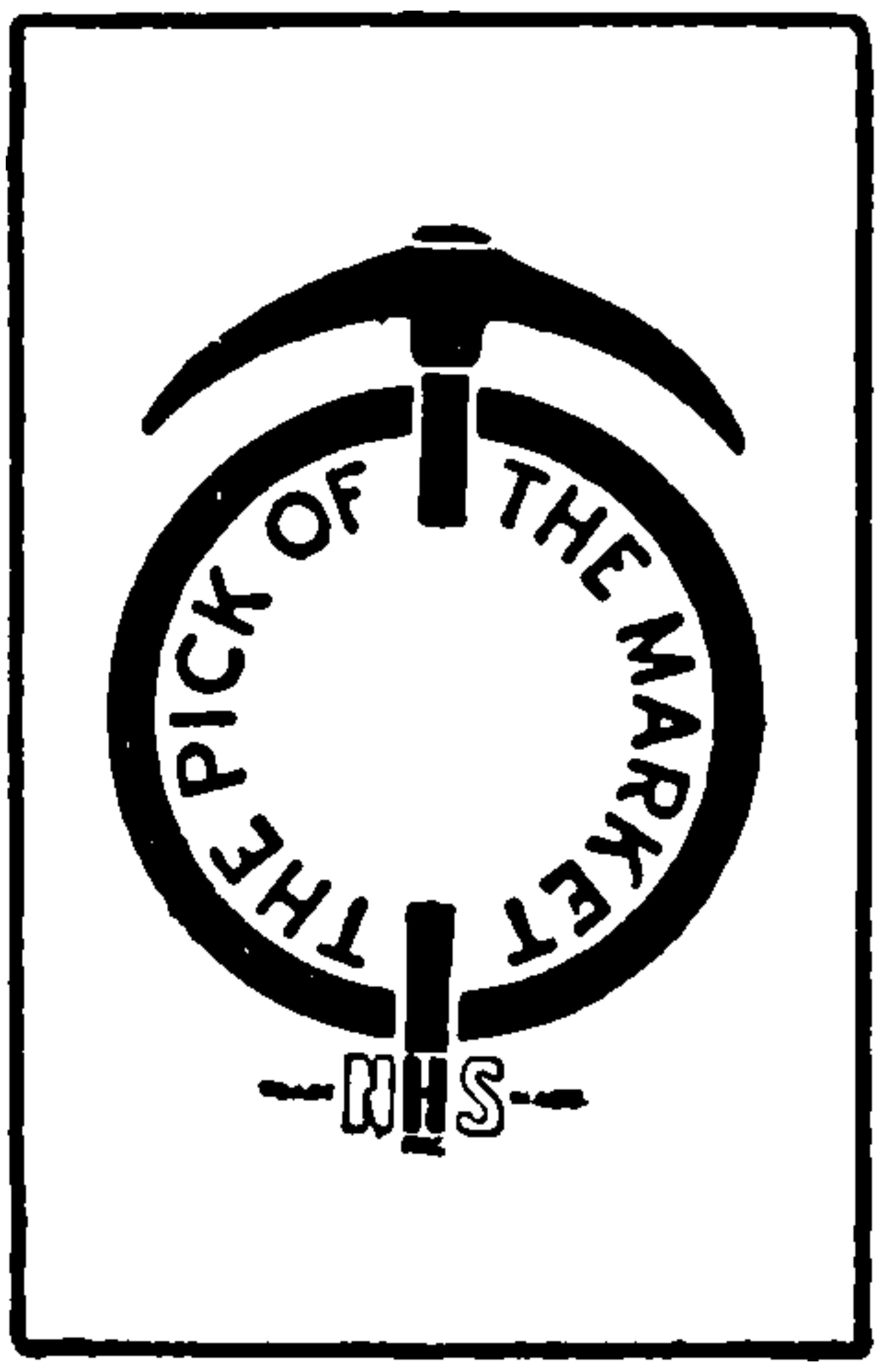
The great speed at which this work is done makes the cost of producing the records of sales and stock on hand very small, and the records are available within twenty-four hours after the sale.

The use of a merchandise code also permits of the standardization of merchandise in many stores. A careful study will be made of all kinds of articles capable of sale in a properly run hardware store, and the buyer will then "pick" the item that is best for the customer and most profitable for the store.

The merchandise so selected will be offered to the public under a novel device described as a Super-Trade-Mark "The Pick of the Market," the design of which has been filed in the United States patent office and application made for its registry.

It is the policy of the company to deal in standard brand goods in preference to private brands of its own, merely affixing its Super-Trade-Mark, thus indorsing the article as "The Pick of the Market." It is the intention of the managers of this business to make the Super-Trade-Mark a mark of service, rather than a brand of merchandise, which symbolizes the service not only to the consumer but also to the manufacturer.

The standardization of merchandise under this Super-Trade-Mark (which also carries the merchandise code and selling price), makes it possible for the central office to give effective co-operation and assistance to the managers of the stores in selecting the best merchandise bought at the lowest price, and also to maintain properly balanced stocks without loading detail work on the men in the stores. The store managers will, of course, buy such goods as are peculiar to their local requirements.


THE PICK OF THE MARKET
—NHS—

The clerks and managers will be free to concentrate on the all-important work of selling goods.

Provision is also made in the plans of the new business for a simple yet complete accounting system, which will be produced at the central office for each store as a distinct and separate unit. There will thus be available for each store manager each month, an operative statement and balance sheet showing the transactions for the month, and also for the year to date. This monthly report will be made up at the central office without imposing on the stores anything other than the making of sales tickets, etc., for each transaction; no special reports being required.

This store report will show the sales of each salesman. A bonus system will be operated and each clerk will receive an adequate and liberal compensation in proportion to his ability and efficiency.

The aim of the management is to have all work done in the central office that can possibly be done there, so that the store men may sell goods, and to assist them in the work modern sales promotion helps will be provided.

Modern sales promotion means, first, arousing the interest of a large number of possible customers by direct advertising to their homes; second, supplementing this interest by advertising in newspapers and other local mediums; third, attracting the customer thus interested into the store by effective window display of the goods advertised; and fourth, instructing the store salesmen what to say and how to say it, when the customer is in the store, and finally and most important paying the salesman a special compensation or bonus for special efficiency, success and effort.

A sales promotion department will be organized at the central office which will furnish a regular service of direct advertising to selected lists of customers made up by the stores, also newspaper and street car advertising, gotten up by experts, show windows designed in standard form, by specialists, for easy arrangement in store windows, and most important of all, a system of training salesmen, which will assist them to sell intelligently the goods carried by the stores.

The basis of training salesmen is to secure from the manufacturer with whom an order is placed a full statement of the selling points of the goods bought, which is passed on as "selling talk" to the store clerks, at the time the goods are put on sale.

It is believed by the organizers that the sales promotion work of this organization will appeal especially to the manufacturer who is interested in placing his product in the hands of the consumer, and that the plans of the National Hardware Stores made to this end will receive ready cooperation from the manufacturers.

Emphasis is laid by the management of the company on the fact that no price cutting policy will be countenanced.

Very complete detailed preparation has been made for giving effect to the administration of the business in harmony with these policies, the work having been in course of development for the past two years.

During this time thorough study has been made of many towns and cities within a twelve hour radius of New York

City, covering not only the local conditions of the town and back country, but especially that of the hardware trade there.

Town reports in standardized form have been secured on over one hundred towns, covering the essential facts under the following heads, viz.:

1. Population and avenues of transportation.
2. Rates and distances of transportation and commutation.
3. Municipal improvements.
4. Civic development.
5. Retail conditions.
6. Industrial conditions.
7. Back country.
8. Hardware conditions.
9. Especial features and photographs.

From a study of these town reports a selection of those best suited for business development is made, and negotiations opened for a hardware store there.

The purpose of this very exhaustive investigation is "To assure to the organization at this time a group of successful established hardware stores, the owners of which realize the possibilities of hardware chain stores, desire to participate in the large profits to be made and are willing to cooperate with each other and the officers of the company to this end. A sufficient number of hardware dealers have agreed to join the company to assure its success. It is the policy of the corporation to buy men into its organization rather than to buy out their businesses."

The board of directors will contain a number of names well known to the trade.

The organizers of the National Hardware Stores, Inc., are W. A. McFadden and John M. Gaines. The former was for five years with a large Western jobbing house, and for the past eight years has been engaged in organizing and merchandising efficiency work in New York City for a number of large business houses.

Mr. Gaines was for many years an officer and director of the Remington Arms—U. M. C. Co., and is well known to the hardware trade.

There will be associated with the organizers in the administration of the corporation, as officers, directors and managers, a number of men selected with special reference to their ability to contribute to the practical management of the hardware business, and the financial standing of the corporation.

Discuss this plan from the standpoint of Mr. William Reed, the proprietor of a retail hardware store in a town of 12,000 population in eastern New York. If he so desires, Mr. Reed may have an opportunity to join this organization. The annual sales in his store are about $69,000 a year; his total expense is 19.8% of net sales, and his annual rate of stock-turn 1.9 times. The store has been in operation for a period of years and has a reputable standing in the community.

## 39. CHICAGO GREAT WESTERN RAILROAD—RETAIL STORES

The following newspaper dispatch from Kansas City, Missouri, was published March 1st, 1915:

> The Chicago Great Western Railroad is going to open general stores in all its small stations, if an experiment to be tried out at these stations in Missouri is successful.
>
> A full stock of merchandise has been ordered for stores at Woodruff, West Platte and New Market, Mo., in the Bee Creek Valley. If the plan proves a success, it will be followed at other towns.
>
> The object is to increase the business of the railroad in towns where at present there is perhaps only one general store, or none at all, and to provide better occupation for the station agents, who now have little to do. It will also increase their income, and make their services of more value to the road.
>
> A full stock of merchandise, such as is handled by the usual general store in small towns, will be kept, and with the backing of the railroad the stores will offer a lively competition for the big mail-order houses.
>
> The system of using railroad stations for general stores has been demonstrated a success by the Kansas City-St. Joseph Interurban Line, which has been operating stores at several stations. Only those towns which have limited store facilities will be included. The new plan will be inaugurated as soon as the stocks can be installed.

What are the chief apparent obstacles to the successful operation of such a plan? In how far can the obstacles probably be overcome?

## 40. FERRY SOAP COMPANY—CHAIN STORE OUTLET

The Ferry Soap Company, manufacturing toilet soap sold under the Ferry brand, is planning for an expansion of its sales. The company's product heretofore has been sold chiefly through unit stores. The company is considering the opportunity of selling to chain stores. One of the questions for decision is whether to solicit business from chains of five and ten cent stores or chains of drug stores, or both.

In how far will this company find that the same factors are involved in selling to chains of five and ten cent stores as in selling to chains of drug stores?

## 41. POTOMAC MILLS—FIVE AND TEN CENT STORE CONTRACT

The Potomac Mills, located in Pennsylvania, have had annual sales ranging from $400,000 to $600,000. Two-thirds of the sales of the company have been mercerized crochet cotton and the remainder fancy darning cottons of four different types. The company has distributed its entire product through the regular trade, selling to one wholesaler in Boston, one in New York, and one in Chicago. The company has been able to count in normal years on a net profit of 2% on all its products.

The Potomac Mills have received from a chain store company an offer to buy on a one-year contract, subject to renewal, $600,000 worth of mercerized crochet cotton at a price which represents a net profit of 1¾% with the present basis of costs unchanged. The retail company operates a chain of five and ten cent stores located in many of the cities and towns in the United States, having a population of over 25,000 and some stores in smaller towns.

What must the Potomac Mills take into consideration in reaching a decision on this offer?

## 42. SWEETS COMPANY OF AMERICA, INC.—SALES CONTRACTS

The following news dispatch was published in the Boston Transcript, November 1st, 1919:—

> Four contracts with large companies for the distribution of the products of the Sweets Company of America, Inc., have just been signed by Samuel F. Williams, president of that corporation. They are with the Atlantic & Pacific Tea Company, with 4,500 stores throughout the country, the American Stores Company, with a chain of 1,200 stores, with Louis K. Liggett, for distribution of the product through the Liggett stores, and with Ward & Gow, for distribution of the Sweets Company's product in the elevated and subway stations in New York. These contracts, according to Mr. Williams, will assure immediate distribution for every pound of its product the Sweets Company is able to turn out.

Discuss the sales policy from the standpoint of the manufacturing company.

## 43. UNITED DRUG COMPANY PLAN

The United Drug Company was incorporated in 1902, for the manufacture and sale of products sold in retail drug stores. The plan on which the company was organized provided for the ownership of the common stock by retail merchants. Each retailer who was a stockholder thereby became an exclusive agent in his district for the Rexall goods manufactured by the United Drug Company. The goods made by the company were to be sold under the Rexall trade-mark.

Apparently one of the objects of the organization of this company was to meet the "price-cutting evil" in the drug trade as well as to provide an outlet for the products of the new manufacturing company. For a period of fifteen years prior to the organization of the United Drug Company, price cutting, especially on proprietary articles, had been prevalent in the retail drug trade.

According to the published financial reports of the company, its authorized capitalization in 1919 was as follows:

$12,500,000 7% cumulative first preferred stock.

$10,000,000 6% non-cumulative second preferred stock.

$35,000,000 common stock.

Of this authorized capitalization $40,600,000 was outstanding in 1919.

It was stated that in 1919 the company controlled the following subsidiaries: the Louis K. Liggett Company, operating a chain of 186 retail drug stores in the United States; the United Drug Company, Limited, of Canada; United Drug Company of Great Britain; Cooperative Realty Company; Seamless Rubber Company; Schuhle's Pure Grape Juice Company; National Cigar Stands Company; Guth Chocolate Company.

The merchandise sales for the year ending June 30, 1903, were $61,776; 1907, $1,014,000; 1918, $51,028,000.

In 1919, about 5,500 retail druggists were reported to be stockholders and exclusive agents for the Rexall products.

The United Drug Company manufactures proprietary medicines, perfumes, pharmaceuticals, toilet articles, rubber goods, and numerous other articles sold in retail drug stores.

Soon after its organization the United Drug Company began to open retail stores to be operated as retail branches and known as the Liggett stores. These stores were located in the larger cities. Presumably one of the objects in opening these stores was to enable the company to meet the competition of other chains of drug stores. In 1915 the United Drug Company acquired control of the Riker-Hegeman chain operating about ninety drug stores in the large cities in the East. This chain was merged with the chain of retail branches operated by the United Drug Company.

Does the plan on which the United Drug Company is organized and operated appear to be applicable to the grocery business?

## 44. SUDBURY COMPANY—MANUFACTURERS' RETAIL BRANCHES

The general manager of the Sudbury Company, manufacturing an article now sold through unit stores, is considering the advisability of establishing a chain of retail branches. He desires information on the following points[1]:—

In what trades are manufacturers' retail branch stores in operation?

What are the general characteristics of the merchandise sold in these stores?

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[1] John Allen Murphy, "L. E. Waterman Company's 'Laboratory' Retail Stores," *Printers' Ink*, September 7, 1916, pp. 3-8. "Methods and Policies of the New England Shoe Manufacturers," *Printers' Ink*, April 2, 1914, pp. 3-13, 136-138.

What have been the objects of manufacturers in establishing these retail branches?

Have these objects generally been attained?

## 45. LEXINGTON SHOE COMPANY—MANUFACTURERS' RETAIL BRANCHES

The Lexington Shoe Company produces women's shoes of good quality to be sold at a medium price. The company has a large output. About one-half of the shoes that it produces bear the manufacturer's brand name which is well advertised. The remainder is sold unbranded to wholesalers and retailers. For the sale of its branded product the company heretofore has granted exclusive agencies to department stores in the larger cities in the United States. This company is contemplating the establishment of a chain of several hundred branches through which eventually it is hoped to market its entire output.

What are the obstacles to be overcome in effecting this change in policy?

## 46. MEETING MAIL ORDER COMPETITION

The following statement is quoted from a card sent out by Smith, Brown & Company, a mail order house, in December, 1915:

### Stop Paying Needless Profits

Keep This Money at Home—Right in Your Own Pocket.

When you buy farm implements in the ordinary retail way you usually pay a profit of 20 to 40 per cent over the price at which the goods are sold by the manufacturer to the jobber or dealer. This profit is the only part of the purchase price that really "stays at home," the balance goes back to the manufacturer, who may be located a thousand or more miles away. When you buy our implements, gasoline engines, cream separators, buggies, or other goods made in our own factories and sold direct from the factory to you, you save middlemen's profits, for only the manufacturer's profit is added to the actual cost of the goods. The money you save not only "stays at home" but you can keep it right in your own pocket. Surely this is closer to the principle of keeping money at home than any other method of buying.

Almost every kind of machinery or supplies that you use on your farm is being made in our factories and sold direct to the user on a one-profit basis. If you are buying in the old-fashioned way you are paying needless profits—profits simply contributed to middlemen, because they cannot bring a penny's worth of value or service which you cannot obtain from us—profits which you might as well keep at home, right in your own pocket. Be your own dealer. Buy direct from the makers. Your saving will make a substantial addition to your farm profits. Write your name and address on this card and mail to us today and a copy of this catalog will be sent you free.

Our Free Special Catalog of Farm Implements contains an assortment of high grade farm tools and many other lines of interest to every farmer, products of our own factories, that cannot be excelled for high quality or low prices in any market. Don't buy elsewhere until you have our prices. Indicate on this card the lines you are interested in, and you will receive our Special Catalog and complete information by return mail.

Walking Plows
Riding Plows
Harrows
Disc Harrows
Planters
Cultivators
Mowers
Gasoline Engines
Cream Separators
Buggies
Harness

We particularly urge you to consider your farm implement needs now. Fill out and return this card promptly. We have a Special Offer for Early Buyers which will make it to your advantage to let us have your order now. Mail this card today.

How can James Wilson, an implement retailer with a typical store located in a town of 5,000 population in a rich farming district in Kansas, meet this competition[1]?

## 47. WELLFLEET COMPANY—MAIL ORDER DEPARTMENT

The Wellfleet Company, a large department store in New York City, has been filling incidental mail orders from customers for some years. The conditions are now such that if it is to continue to handle any substantial volume of mail order business, a new policy must be adopted. One plan that is being considered is to issue a large catalogue twice a year, as is done by companies that conduct a mail order trade exclusively. An alternative plan is to issue about twice a month an eight or ten page circular of special sales in the various departments of the store[2].

What is to be said for and against each plan?

## 48. ERIE COMPANY—SELLING BY MAIL

The Erie Company manufactures a toilet article. Its plant is located in Cleveland, Ohio. It is seeking information on the opportunities for selling its product by mail[1]. The article will retail for about sixty cents, and there is already quite a demand for it, but the Erie Company is in doubt as to whether or not a single article can probably be sold at this price by mail.

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[1] Theodore H. Price, "The Mail Order Business," *The Outlook*, January 26, 1916. T. W. McAllister, "The Retail Merchant," *The Outlook*, March 8, 1916.

[2] See "Department Stores as Manufacturers' Competitors in Mail Order Activities," *Printers' Ink*, March 30, 1916, pp. 61-68.

What are the chances for success in undertaking to sell such an article by mail?

## 49. Selling Farm Produce by Mail

A marketing division of the Post Office Department has been proposed. Its purpose would be "to promote direct trading" between producers and consumers of farm produce, by means of the mails. The following argument has been advanced in its favor:—

> At this time about 90 per cent of the world's wholesale trade is done through exhibition of samples, which the buyer bears in his mind. Then come the orders by lot numbers and orders by telegraph and "open" orders—all with no higgling or haggling, and never in the world was wholesale business better performed. And in the retailing of small purchases, especially of food products, how many housewives nowadays go to the market with market baskets on their arms and pick out their own meats and vegetables?
>
> So we see that the time is here for "ordering," but the true way to order, the most economic way to order, is from "first hands," and this applies especially to food products. In the distribution of food products, if the efficient mode of selling and buying be in operation, it gives the equities both to producer and to consumer. It does more; it frees the farmer from the vexatious and pernicious laws of chance, hence from injustice. With chance and injustice eliminated from exhange, with the rule of efficiency and equity in its place, it will not alone make the farmer economically stronger, but it will do more; it will make this nation stronger and

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[1] See *Printers' Ink*, December 4, 1919, p. 25.

mightier than mere fighting ships or soldiers can make it, although these, too, should be had when wanted.

(a) Is the argument here advanced in favor of the plan valid?

(b) Which of the following methods of operating such a division by the Post Office Department would be most favorable to the success of the project?

(1) The assistance to be in the form of a brokerage service without charge.
(2) The assistance to be in the form of brokerage at 1% of the value of the products.
(3) The assistance to be in the form of outright purchase and sale in the form of a federal mail order establishment.

## 50. Cooperative Stores

In England the development of consumers' cooperative stores has been conspicuously successful during the last half century. In England and Scotland in January, 1915, there were 3,825 retail cooperative stores with 3,736,589 members[1].

Most of these stores in England are organized on the Rochdale plan. The essential characteristics of the Rochdale plan are that the ownership of the store is vested entirely in consumers; that capital is provided by the members, each of whom subscribes for one or more shares; that the par value of each share is small, seldom over $5.00. Ordinarily there is a limit to the number of shares that any one member may hold. Each member has one vote in the management of the store irrespective of the number of shares that he holds. Dividends usually are paid on the shares at the rate of 5 or 6%. The net profits over and above the dividends on the shares and the amount that is set aside for reserves and surplus are distributed to the members in proportion to their purchases. In some societies non-members are granted a dividend on purchases at not over one-half the rate paid to members.

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[1] *Cooperative Wholesale Societies, Limited, Annual Report 1918,* p. 297.

Many of these cooperative societies are members of the wholesale cooperative societies. The English Cooperative Wholesale Society, established in 1864, had a membership in 1918 of 1,200 societies[1]. The Scottish Cooperative Wholesale Society in 1918 had a membership of 261 societies. The combined sales at wholesale of these two societies in 1918 amounted to $411,600,000. Groceries and provisions make up the largest item in their business.

The wholesale societies are organized on the same principle as the retail cooperative societies. In addition to performing the regular wholesale functions, these wholesale societies have also greatly extended their activities. The English Cooperative Wholesale Society, for instance, operates several factories for manufacturing shoes, crackers, candy, underwear, ready-to-wear clothing, furniture, wire mattresses, brushes, drugs, cotton cloth, and flour. The society owns farms in England for the supply of fruit for the manufacture of jams and preserves and tomatoes for canning. It operates hot houses and dairy farms. It owns tea plantations in Ceylon and operates a fleet of steamers. Since 1914 the English cooperative societies, both retail and wholesale, have been conspicuously prosperous[2]. In the countries of continental Europe, the consumers' cooperative movement also has developed on a large scale.

In the United States, it was estimated a few years ago that there were in the neighborhood of 1,000 cooperative stores[1]. A majority of these stores have farmers as members. In 1918 there probably were not more than 250 cooperatives of industrial workers in the United States[2]. A large number of cooperative stores have been started at various times in the United States, only a few of which have survived for a long period.

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[1] *U. S. Bureau of Labor Statistics, Monthly Labor Review*, April, 1920, p. 132.

[2] For an up-to-date history of the cooperative movement, see Albert Sonnichsen, *Consumers' Cooperation.*

Why have not cooperative stores developed more successfully in the United States?

## 51. COOPERATIVE STORES

New York City,
December 11, 1916.

Bureau of Business Research,
Harvard University,
Cambridge, Mass.

Dear Sirs:

I am interested in a club which conducts a cooperative grocery store, and whose directors have ambitions to expand. In attempting to cut prices on watches they found that this could not be done without being refused the right to handle them. This brought them to the idea that they ought to adopt the Rochdale plan of selling at current prices and giving dividends. The grocery has been conducted for years with success by selling goods at less than the regular retail market rate, the club charging, however, a commission of

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[1] These statements regarding the status of cooperative stores in the United States are based chiefly upon Bulletin 394 of the United States Department of Agriculture, *A Survey of Typical Cooperative Stores in the United States*, by J. A. Bexell, Hector MacPherson and W. H. Kerr, published November 3, 1916. An ardent endorsement of the cooperative store movement is given in Emerson P. Harris', *Cooperation, the Hope of the Consumer*. See also Florence E. Parker, "Consumers' Cooperative Wholesale Societies in the United States," *U. S. Bureau of Labor Statistics, Monthly Labor Review*, April, 1920, pp. 117-128.

[2] During 1919-20, a substantial number of cooperative stores were started under the guidance of union labor men. For example, see *Printers' Ink*, March 11, 1920, p. 84.

3%. Some of us would like to continue this method of selling, as our wives would like to know whether they are getting things cheaper than at public stores or not, and like to know for a certainty whether they are going to make both ends meet at the end of the month, without having to gamble on what the dividend is going to be. At the same time, others point out that practically all successful cooperative societies operate on the Rochdale plan. I should be greatly obliged for any information which will help us to decide wisely in regard to changing from the present to the Rochdale plan.

Yours very truly,
(signed) James Brown

What reply should be made to this letter?

## 52. Charles Armstrong—Sales Plan

The following inquiry was received from Mr. Charles Armstrong, in 1919:—

I am taking the liberty of asking you a question or two. In your study of the merchandising methods of food business generally, have you run across any cases of cooperative stores and also any cases of stores operated by individuals purporting to be selling merchandise at cost prices (plus carriage) where the privilege is accorded the customer of buying from this particular store or warehouse in consideration of a sale of a certain certificate for say a yearly period amounting to a definite fixed sum, say $25.00 or $30.00 a year or whatever it may be. In other words, the idea as represented by the latter named method is one of selling a definite number of certificates for a definite sum in order to get together the working capital upon which to do business and considering the income received from the sales of certificates and the discount of merchandise as the only income and the actual expenses of doing business as a deduction from same. Of course, the second year's sale of certificates would mean a larger profit.

Is this plan practical?

## 53. RETAIL PUBLIC MARKET

A city market was opened in Oklahoma City in 1912. It consisted of stands on one of the widest streets. It was an open-air market.

This market was established May 21 and 80 stalls were occupied. By the middle of August the number of stalls in use was 318, these extending along 3 blocks of the street. The people of Oklahoma City argue that the wonderful success of the street market indicates the need of a market house wherein products such as meat, fish, butter, eggs, poultry, vegetables, and fruits may be sold. Oklahoma City is today experiencing the same feeling that has existed in all of the cities where markets were opened; that is the importance of direct contact of producer and consumer, and it behooves Oklahoma City to see that the middleman and the huckster do not crowd the producer out of the selling market.[1]

How might this direct contact be preserved? On what would the success of an enclosed market of producers depend?

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[1] Report Mayor's Market Commission, New York, 1913, p. 77. Other references on public markets include: *U. S. Bureau of the Census*, "Municipal Markets in Cities Having a Population of Over 30,000;" City Planning Board, *Market Situation in Boston;* G. V. Branch, "Retail Public Markets," *U. S. Department of Agriculture, Year Book, 1914.*

## 54. RETAIL MILK TRADE

According to a report of the Massachusetts Agricultural Experiment Station the cost of distributing milk at retail by more than eighty distributors, some of them producers and some of them dealers, was 2.64 cents per quart in 1914–15, in six cities and towns in Massachusetts[1]. This cost included labor, depreciation of equipment, maintenance, supplies, bad debts, rent, interest, taxes, insurance, and some other small items. It was concluded that labor constituted three-fifths of the delivery cost.

For businesses of various sizes it was stated that the retail delivery cost per quart was 2.66 cents when the business was under 500 quarts per day; 2.05 cents per quart for businesses handling 500–1000 quarts daily; 2.23 cents per quart for 1,000–2,000 quarts daily; 2.92 cents per quart for businesses handling over 2,000 quarts daily.

This investigation concluded that under competitive conditions milk retailing *service* is fairly satisfactory, inasmuch as the consumer usually receives his milk on time and in such quantities as he requires. He has the opportunity of changing from one dealer to another if the quality is not satisfactory. Nevertheless, the following conclusion was drawn:—

> After all is said, the adequate solution of milk distribution will come only through municipal delivery or the organization of the milk distributors. In small cities and towns a cooperative milk plant owned and managed by two or three men is very feasible. One plant could easily deliver the necessary 2,500 to 10,000 quarts per day and solve most if not all the problems of economical and adequate delivery.
>
> The problem of milk distribution in large cities is difficult, but the organization of the small milkmen operating in large cities into a single distributing agency would cure many ills and bring about cheaper delivery.

The committee of the Boston Chamber of Commerce in its report[2], July, 1915, stated that the dealers claimed that a central delivery would not reduce expenses despite the duplication of delivery on certain streets. Their reasons were the following:

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[1] "Cost of Distributing Milk in Six Cities and Towns in Massachusetts," Massachusetts Agricultural Experiment Station, *Bulletin No. 173.*

[2] Boston Chamber of Commerce, *Report on Milk and Cream.*

(1) Each company would have to maintain motor trucks or have horses and teams to carry its product to the central plant, which would be useless the rest of the day.

(2) The load could not be arranged to carry various numbers of different sized bottles.

(3) The customer could not secure extra milk without notice, as the driver could not carry extra milk for all dealers.

(4) There would be a serious loss in bottles, because of the difficulty of supervision and lack of interest.

(5) Each dealer's driver now acts as a solicitor for new trade and collects bills and bottles. It would be necessary to hire an additional man to do this under a system of central delivery.

(6) The cost of advertising would be increased.

From this evidence, what conclusions are to be drawn regarding the practicability of the cooperative delivery system in the milk trade?

## 55. Bag Coal

In December, 1916, a serious coal shortage existed in New England as well as in other parts of the United States. Prices had been advanced, and the reserve stocks on hand in Boston were unusually small. Transportation conditions were precarious, and it was believed that a period of bad weather, with severe cold, might exhaust these reserves.

At that time, as previously, a large number of consumers in the poorer districts in Boston were in the habit of buying coal from peddlers or grocers in twenty-five pound bags at 40–60% above the ton price. The peddler bought coal from the large coal retailer in ton lots at a reduction in price of seventy-five cents a ton. The peddler bagged the coal and distributed it. In December, 1916, the retail price for coal in ton lots was $9.50. The price of bagged coal in Boston was seventeen cents for twenty-five pounds.

The Commission on the Cost of Living suggested that every coal retailer should offer to sell coal in twenty-five pound lots at the ton price; that is, for twelve cents for twenty-five pounds, at his yard to customers bringing their own containers and carrying the coal home. One large company with several yards in the city had no facilities for handling twenty-five pound lots. Up to that time it had sold coal only in lots of one-half ton and upwards. It had a substantial business with coal peddlers.

What attitude should the company have taken toward the suggestion made by the Cost of Living Commission?

# PART IV

## WHOLESALE TRADE

THE problems in this section illustrate the functions, services, and costs of wholesale merchants, cooperative buying associations of merchants, manufacturers' wholesale branches, merchandise brokers, commission agents, commission merchants, producers' cooperative associations, and other agencies engaged in wholesale trade[1].

### 56. CONCORD HOSIERY COMPANY—DISTRIBUTION

The Concord Hosiery Company, manufacturing medium-price hosiery for men and women, is seeking national distribution. The product is to be widely advertised under the manufacturer's brand. The company has a large mill and strong financial resources.

What avenues of distribution are open to this company? What are the advantages of each?

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[1] General references on wholesale trade are: Butler, DeBower and Jones, *Marketing Methods.* P. T. Cherington, *Advertising as a Business Force* and *The Wool Industry.* A. W. Shaw Company, *How to Run a Wholesale Business.* *Dun's Review,* August 23, 1913, p. 17. Bureau of Business Research, Harvard University, *Bulletin No. 6, "System of Accounts for Shoe Wholesalers;" Bulletin No. 8, "System of Operating Accounts for Wholesale Grocers;" Bulletin No. 9, "Operating Expenses in the Wholesale Grocery Business—1916;" Bulletin No. 14, "Methods of Paying Salesmen and Operating Expenses in the Wholesale Grocers Business in 1918;" Bulletin No. 19, "Operating Expenses in the Wholesale Grocery Business in 1919."*

## 57. JAFFREY SHOE COMPANY—RELATION TO WHOLESALERS

The Jaffrey Shoe Company operates a shoe manufacturing business in Boston. Its product is women's shoes of low-price quality. This manufacturer now sells entirely to wholesalers, having about sixty wholesale customers. One salesman and one of the officers of the company perform all the sales work.

What would be involved if this company were to change its policy to selling direct to retailers[1]?

## 58. DOVER COMPANY—METHOD OF DISTRIBUTION

The Dover Company, with an average-size plant, has been organized to manufacture medium-price workmen's shoes. These shoes are to be sold unbranded.

What class or classes of retail stores may be expected to distribute this product? How can the shoes be distributed to these stores most economically?

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[1] See also U. S. Department of Commerce, *Miscellaneous Series No. 32, The Knit Underwear Industry;* J. George Frederick, "Why Selling Retailer is Becoming Popular," *Printers' Ink*, February 13, 1913, pp. 17-20.

## 59. WOODCOCK & ELDRIDGE—METHOD OF DISTRIBUTION

The firm of Woodcock & Eldridge has a medium-size plant in Maryland, for canning tomatoes. This firm competes with other canners in Maryland and other eastern states and also with California canners.

About one-half the annual pack of tomatoes is now packed in Maryland. Recently, however, California tomatoes have become severe competitors of the Maryland tomatoes. Costs of production are said to be lower in California, because of larger production per acre and also greater regularity in production. There is a large available acreage for expansion in California. The canning establishments are more uniform in their operation and more nearly standardized in California than in Maryland. The California tomato is more attractive in appearance. After canning it is firmer, more meaty, and less watery than the Maryland tomato. The Maryland tomato, nevertheless, has a superior flavor[1].

Provided Woodcock & Eldridge do not choose to sell their product to chain stores, what will they gain by selling direct to retailers? What will they gain by selling to wholesalers only? Which is likely to be the better policy? If this firm decides to sell to wholesalers only, between what types of wholesalers has it a choice? What advantages does each type offer?

## 60. LACONIA COMPANY—METHOD OF DISTRIBUTION

The Laconia Company has been organized recently to manufacture a new cleaning compound, different from anything on the market. This compound is patented and it is the only product now made by this company. It is being introduced first in Boston and later will be sold in other parts of the United States.

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[1] *New York Journal of Commerce*, April 3, 1920, p. 12.

This company is considering whether it will be better policy to undertake to sell direct to retailers or to wholesalers. What are the objections to distributing through wholesalers? What are the objections to selling direct to retailers?

## 61. CONGRESS WHOLESALE GROCERY COMPANY—RELATION TO COMPANY STORES AND MEETING NEW COMPETITION

The Congress Wholesale Grocery Company located in Chicago has annual sales of approximately $5,000,000. The company's operating expense is about 10.5% of net sales and its gross profit 12.5%. It has a large volume of business in staple and medium-price groceries. It also imports large quantities of coffee, tea, and other foreign products, and has an extensive business in private brands of good quality. Its sales are to three main groups of customers: (1) local retailers; (2) retailers in many parts of the United States outside the local district; (3) hotels, steamships, and institutions.

During the last ten years the sales of this company have increased heavily. The sales to local retailers, which now amount to about one-third of the total business, have increased only in proportion to the increase in prices. In other words, the physical volume of sales to local retailers has remained practically constant.

The sales to outside retailers have shown greater increase, but it is believed that the limit has nearly been reached for these sales. Freight rates constitute a serious obstacle to further expansion, on a large scale, of sales to retailers outside the local district.

The sales to hotels, steamships, and institutions have shown the largest increase during the last ten years. These sales now amount to about forty per cent of the total sales of the company. The competition for this trade has become keen, however, and it does not appear that it readily can be expanded at a rapid rate.

Within the local territory the number of chain stores has been growing. Numerous unit stores, furthermore, particularly those in a strong financial position, have joined cooperative buying associations. At the present time in this district there are a substantial number of company stores that have been organized under the supervision of manufacturing and public utility companies to sell merchandise to their employees at a slight advance over wholesale cost. Some of the company stores have been discontinued, but in the aggregate they now handle a substantial volume of business. As a matter of policy this wholesale company never has sold merchandise to these company stores. Some of its chief competitors, with wholesale businesses of similar character, for several years regularly have accepted orders from company stores.

Should the Congress Wholesale Grocery Company now solicit orders from company stores?

What policies can the company advantageously adopt for safeguarding and developing its business in other directions? What policy is likely to be the best?

## 62. HURON FLOUR COMPANY—RELATION TO COOPERATIVE STORES

The Huron Flour Company of Buffalo is engaged in the wholesale flour business. The company sells manufacturers' brands and also its own private brands of flour. Up to the present time it has sold to a few consumers' cooperative stores as well as to unit stores and bakeries.

In 1919, several new consumers' cooperative societies, on the Rochdale plan, were organized in its territory by members of labor unions. The Huron Flour Company accepted orders for flour from these stores in accordance with its previous policy. Hitherto no objection had been raised by the proprietors of unit stores against sales to cooperative societies. In the latter part of 1919, however, the Huron Flour Company and other wholesalers selling flour received a request, from an association representing a substantial number of unit stores, that the wholesalers should cease the sale of flour to cooperative stores. These cooperative stores were looked upon by the unit stores as "irregular" dealers.

What policy should the Huron Flour Company have adopted upon receipt of this request from the unit store association?

## 63. PRAIRIE DRY GOODS COMPANY—FILL-IN-ORDERS

The Prairie Dry Goods Company, dry goods wholesalers, located in one of the cities on the Missouri River, covers territory within a radius of 500 miles. The annual sales of the company are about $2,000,000. The customers are primarily small dry goods stores and general merchandise stores.

In the territory that is covered by this wholesaler's salesmen are located a substantial number of medium-size department stores. These stores regularly place orders with manufacturers at the beginning of each season for 35 to 50% of their normal season's purchases of dry goods.

Should this wholesaler solicit "fill in" orders from the department stores?

## 64. CALVERT COMPANY—RETAIL BRANCHES

The Calvert Company, operating a wholesale electrical supply business in Baltimore, desires to expand its sales. It is subject to keen competition. Among the retailers in its territory, furthermore, there is oftentimes a severe cutting of prices.

The Calvert Company has an exclusive agency in its territory for the products of one of the large manufacturers of electrical supplies. This territory is clearly defined, and the Calvert Company is not permitted to infringe on the territory of wholesalers who have similarly exclusive rights in neighboring sections of the country. The Calvert Company, for instance, is not permitted by the manufacturer to solicit orders for the exclusive agency goods in the territory assigned to the Philadelphia agent.

Each of the salesmen of the Calvert Company covers his route once a week. The salesmen are expected to be on the watch for new opportunities for selling, and newspapers and other sources are studied carefully to learn in advance of large contracts to be let.

In order to expand its business, should the Calvert Company establish retail branches while continuing to sell to other stores at wholesale?

## 65 LOMBARDY COMPANY—EXCLUSIVE WHOLESALE AGENCY

A new baking powder was put on the market in 1915 by the Lombardy Company, which had long been engaged in the manufacture of products other than foodstuffs. During the first two years the sale of the product was confined to territory immediately contiguous to New York. The object was to make an actual, exhaustive test of the sales problems before entering a broader market.

When the company had reached the point where it was ready to enter new fields, it faced a serious problem. It had no sales organization for wide distribution. It had sold up to that time through wholesalers. One of the questions was whether the company should send out specialty salesmen or continue to distribute through wholesalers.

Many of the wholesalers, particularly the large, strong firms, had their own private brands of baking powder. It was expected that they would be reluctant to push the product of this manufacturer. The retail and wholesale prices of this manufacturer's product were fixed so as to yield good margins of profit.

The Lombardy Company desired to expand its market to the Middle West and to the Pacific Coast. At the same time it wished to avoid the expense of a heavy advertising and selling campaign.

The Lombardy Company proposed to one of the largest firms of wholesale grocers in Chicago that this wholesaler should be given the privilege of acting as the sole distributor in the Chicago territory. The Lombardy Company's capacity was limited at the time, and the wholesaler was to have the right to act as sole distributor as long as both the manufacturer and wholesaler were satsified. The wholesaler was advised, however, that as soon as the Lombardy Company could manufacture more baking powder than the wholesaler could sell, other distributors would be sought in St. Paul, Omaha St. Louis, and other cities, and that eventually the product probably would be sold to all wholesale grocers.

Should the wholesale grocer in Chicago have accepted the offer to become the exclusive distributor of the Lombardy baking powder under these conditions?

## 66. CHICKAMAUGA COMPANY — SPECIALTY SALESMEN

The Chickamauga Company, manufacturing packaged food stuffs that are widely advertised, distributes its products through wholesale grocers to 285,000 retail stores. The wholesale grocers carry these goods in stock and fill such orders as they receive through their salesmen from their customers. Orders are solicited from retailers extensively by the Chickamauga Company's salesmen. The Chickamauga Company does not maintain salesmen in each territory constantly, but only as occasion warrants. Orders that are received by the Chickamauga Company through its own salesmen are filled either by drop shipments from the company's own plant or from wholesalers' stocks. In every instance the goods are billed through the wholesaler specified by the retailer at the time the order is given. The wholesaler receives his normal gross profit on such orders.

On what grounds is the sales policy of the Chickamauga Company to be justified?

## 67. COMMUNITY STORES—COOPERATIVE ASSOCIATION OF WHOLESALERS

The Community Stores plan was started in Philadelphia in the autumn of 1917. This plan provided for the cooperation of 24 wholesale grocers and 2,100 unit grocery stores in marketing advertised goods. One object of the plan was to facilitate competition with the chain stores in Philadelphia. A short time previously several chain store companies had been merged into one company operating 1,200 branches.

According to the Community Stores plan the Wholesale Grocers Sales Company was to buy cooperatively for 24 wholesale grocers in Philadelphia. For example, this company might purchase several carloads of one brand of cereal, each wholesaler agreeing to take as much as he believed that he could sell. It was agreed that for a period of one or two weeks there would be heavy local advertising of the particular brand thus purchased. Each of the wholesalers would undertake through his salesmen to sell as much of this particular article as possible. It was stated that the saving obtained through the purchase of the large quantity would usually be passed on to the retail trade by the competition of the wholesalers.

The retail stores which were associated in this plan were known as Community Stores. Each retailer participating was to display over his door a sign bearing the words Community Store. He also was to pay dues into an advertising fund. The local advertising was to be carried on under the name of the Community Stores.

A wholesaler who took part in this plan was not compelled to do all his buying through the Wholesale Grocers Sales Company. No minimum quantity of purchases was specified. It was left entirely to the judgment of each individual wholesaler as to the quantity that he should order for each shipment.

Under this plan it was stated that on one occasion Babbitt's soap was sold for five cents instead of seven cents, Lux for ten cents instead of twelve cents, Campbell's soups three for twenty-five cents instead of twelve cents each, Gulden's mustard for twelve cents instead of fifteen cents.

In the operation of the plan each manufacturer whose product was purchased contributed to the advertising of his product either directly or in additional discounts.

What are the merits of this plan from the standpoint of a wholesale grocer with a well-established business and sales of $1,500,000 a year?

What are the merits of the plan from the standpoint of a manufacturer of baking powder who had not heretofore sold his product in Philadelphia?

Would the same merits obtain for a manufacturer of a baking powder who already had a well-established demand for his product through unit stores in Philadelphia?[1]

## 68. CRESCENT GROCERY COMPANY—RETAIL MERCHANTS' BUYING ASSOCIATION

The Crescent Grocery Company, a buying association of retail grocers, was established in 1912. In 1917 the company had 9,000 members with warehouses in Newark, Boston, Pittsburgh, Savannah, and New York. It was stated that the company intended to open warehouses in the near future at seven or eight additional points.

According to the charter the company must always be owned and controlled by retail grocers.

The Crescent Grocery Company handles about 1,500 staple articles. They also have a line of 150 items under their own brand, which yield a larger profit. These goods bearing their special brand are of high quality. The managers of the company state that they do not intend to put out "cheap" merchandise. It is planned that eventually the company shall engage in manufacturing.

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[1] See *New York Journal of Commerce*, March 27, 1920; pp. 10–11; also *Modern Merchant and Grocery World*, May 10, 1920, p. 9.

A member of this buying association is not compelled to carry the Crescent brand in stock. When a member does put in the Crescent brand of goods, it is with the understanding that the minimum price stated in the price list is to be observed. Hence there is to be no price cutting on this brand.

A member is allowed credit up to 50% of the amount of money he has invested in his subscription to the capital stock of the company. If a grocer has paid $200 for ten shares of stock, he can order $100 worth of merchandise without sending a check with his order. He pays within ten days from date of invoice. If he orders an amount exceeding 50% of his investment in the stock of the association, he must send a check for the balance of his order. The members pay freight on their purchases, except on drop shipments.

A price list is issued every sixty days, supplemented by change sheets and bulletins at frequent intervals. Members send in orders by mail from these price lists.

A member ordinarily subscribes to ten shares of stock at $20 a share. He can buy fewer shares, but then he receives less credit. The first stock was taken out at $15 a share, then when a larger line of goods was offered, at $17.50 a share, and later at $20 a share. It is expected that this price will be increased. Many of the early members have taken out additional shares at $20 each, as an investment. Voting rights are one vote for each share of stock held. The stock is negotiable and transferable. The company cannot buy back its own stock. It is formulating a plan to establish a fund to buy up all floating stock and redistribute it among members. The dividends have been 8 to 10% on the stock.

Wherein can such an organization be operated more economically than a regular wholesale grocery business? What are the weaknesses of the plan?

## 69. COOPERATIVE GROCERY STORES—RETAIL MERCHANTS' BUYING ASSOCIATION

The following announcement was published in a trade paper March 13, 1919:

> According to a report from Norfolk, Va., plans are being laid whereby 400 retail grocery stores of that city are to combine into one chain to be known as the Cooperative Grocery Stores. The stores will continue to be individually owned, but each one will be known as a member of the chain. Membership is confined to the members of the Retail Grocers' Association. Purchases will be made on a cash basis and each retailer will haul his own goods. A Buying Committee has been named and plans laid for immediate action in organizing the members of the association in one cooperative chain of stores. It is believed that all the 400 members of the association will come into the plan. The plan in brief provides that a Central Committee will make all purchases for all the cooperative stores, buying at the closest cash figures, each member to haul his own goods. One large advertisement will announce the retail price, with selected leaders which probably will be sold at cost. As far as possible, the cash and carry plan will be adopted. Every article in the cooperative stores is to be marked with a price tag, that all customers may know just what they are buying and the price. All stores in the chain will be known as Cooperative Grocery Stores and will bear identical plate signs. Each member will contribute his *pro rata* share of the advertising expenses. Thirty members joining last week are said to have paid over the full amount necessary to cover expenses for the first month. Additional members will reduce the expense to individual members.

What policy should be adopted by Richard Hampton, a wholesale grocer in Norfolk with annual sales of $500,000 a year, to meet this situation?

What policy should a manufacturer of a nationally advertised food product who has been selling through the wholesale grocery trade adopt toward this new organization? The manufacturer has not employed any specialty salesmen to call upon retailers.

## 70. PROCTER & GAMBLE—DIRECT SELLING

Until a few years ago Procter & Gamble Company distributed their products entirely through wholesalers. Their products are Ivory Soap, Star Soap, Lenox Soap, and Crisco. The first modification of this policy was the establishment of their own wholesale branch in New York to sell directly to retailers in the metropolitan district. In 1919, it was stated that the company had organized to sell direct to retailers in some other districts. What probably were the motives of the company in making this change in its policy?

## 71. CAVALIER BISCUIT COMPANY—WHOLESALE DISTRIBUTION

The Cavalier Biscuit Company, of Atlanta, Georgia, manufactures crackers of various kinds. These goods have been sold in bulk to wholesalers. The company has tried experiments in the sale of branded goods. These experiments have been successful.

The company is prosperous, and it desires now to increase substantially the volume of its business. It plans to bring about this development gradually, with well-correlated sales and advertising efforts. In order to lay the foundation for a large expansion in the future, should the company change its policy and sell directly to retailers?

### 72. MARPLE COMPANY—WHOLESALE BRANCHES

The Marple Company, located in New England, manufactures carpenters' tools and similar products. Its line represents about 1500 items, including tools such as hack saws, screw drivers, calipers, and drills. For many of these tools, several models are manufactured. The difference between models frequently lies in the weight of the handle, the material of the handle, or some other slight variation. This variety has been developed in order to cater to the preferences of the artisans who use the tools.

The company has found that no wholesaler will carry a complete line of its products. The market for these tools among artisans does not appear susceptible of rapid expansion. The company is contemplating the establishment of wholesale branch offices through which to sell its products directly to retailers.

What method can be adopted to assist in making such a change in policy successful?

## 73. MIKADO COMPANY—DISTRIBUTING BRANCHES

In 1916 it was announced that the Ford Motor Company had opened thirty-four new branches[1]. This made a total of eighty-four branches. From these branches practically all shipments were made to local dealers. Previously the distributors in the cities where these branches were located had sold at retail and also had sold to dealers in their respective territories. A few other automobile companies have a small number of branch houses.

Several reasons have been given for the establishment of branch houses by automobile manufacturers. It is stated that it is difficult to secure desirable distributors with the necessary capital and sales ability. The distributor must be able to assume a large portion of the credit burden involved in the sale of automobiles. He employs numerous salesmen and selects and supervises the work of dealers in his territory. In the large cities, furthermore, it is important that the distributor should display the cars effectively, because of the large number of out-of-town visitors to the distributing agency, who may be not immediate but prospective purchasers from local dealers. Distributors who fulfill these qualifications are not easily obtained.

The Mikado Company, manufacturing medium-price automobiles in large volume, with distributors located in about forty of the large cities in the United States, is considering its future policy toward the establishment of sales branches. What would the Mikado Company gain by operating its own wholesale branches? What would it lose?

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[1] *Printers' Ink*, August 17, 1916, p. 84.

## 74. WHOLESALE DISTRIBUTION OF MEATS

The methods of marketing fresh meat have long been subject to controversy. They are therefore of large public interest as well as illustrative of important marketing methods.

There are five large meat packing companies in the United States. These are Swift & Company, Armour & Company, Morris & Company, Wilson & Company, and the Cudahy Packing Company. Although attacks have very often been made against these large packers as constituting a "trust," there is no interlocking ownership. The companies themselves state that each one is operated altogether independently of the others and that real competition exists.

According to the Federal Trade Commission report issued in 1918[1], these five big packers killed 70% of the live stock slaughtered by all packers and butchers engaged in interstate commerce. For the different classes of live stock the percentages were stated to be as follows: cattle 82.2%, calves 76.6%, hogs 61.2%, sheep and lambs 86.4%. It was further stated by the Federal Trade Commission that there was only one independent packer, namely the Kingan Company, who each slaughtered as much as 1% of the total interstate shipments of cattle, and only nine independent packers who slaughtered as much as 1% of the total interstate shipments of hogs. The big packers asserted that they did not handle over one-third of the total meat production of the United States. The remainder was in the hands of the smaller packers and local butchers.

The Federal Trade Commission stated furthermore that Swift & Company was the greatest butter distributor in the United States, handling in 1916 about

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[1] *Summary of the Report of the Federal Trade Commission on the Meat Packing Industry*, July 3, 1918. Other references on the meat packing industry: *Report of the Commissioner of Corporations on the Beef Industry*, 1905; *Report of the Federal Trade Commission on the Meat Packing Industry, Part II, Evidence of Combination among Packers.* Swift & Co., *Analysis of Part II of the Federal Trade Commission Report.* Armour & Co., *Is the Retailer Getting a Square Deal from Armour?* Armour & Co., *Year Book*, 1919, 1920. Swift & Co., *Year Book*, 1919, 1920.

50,000,000 pounds. This was said to be nearly as much as the combined sales of the two largest non-packing organizations. The five big packers, it was further stated, handled at least one-half of the interstate commerce in poultry, eggs, and cheese[1]. In 1916, they were said to have refined 31.8% of the cotton seed oil output of the United States. It was also stated by the Federal Trade Commission that Armour & Company increased their canned goods business from about $6,500,000 in 1916 to about $16,000,000 in 1917, whereas the combined sales of these products by Austin, Nichols & Company and Sprague, Warner & Company, two of the largest independent wholesale grocers in the country, amounted to only $6,000,000 in 1917.

In the plants of the big packers all the by-products and waste are utilized[2]. The utilization of by-products led the packers to engage in the manufacture of a great variety of non-edible products, such as glue, fertilizer, pharmaceutical products, knife handles, pipe stems, crochet needles, buttons, washers, brushes, tennis strings, clock cords, drum snares, and a long list of other articles.

A previous government report stated that the "value of the beef from a typical steer is only about three-fourths of the total value of the products obtained from the animal. The net amount realized from the sale of the by-products is several times greater than the total profit of the beef itself[3]." In fact, the amount received by the big packers from the sale of beef has not ordinarily covered the amount paid for the beef cattle.

The plants operated by the big packers are located chiefly at Chicago, Kansas City, St. Louis, Omaha,

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[1] Swift & Co. in their year book for 1920 state that the five big packers do not handle more than 15 to 20% of the poultry, eggs and butter that enter into trade channels in the United States.

[2] An interesting statement on the use of by-products is given by Edward Mott Woolley, "How Armour Explored New Markets and Developed By-Products," *Printers' Ink*, March 1, 1917, pp. 3–6, 104–117.

[3] *Report of the Commissioner of Corporations on the Beef Industry*, p. 211.

St. Joseph, Fort Worth, Sioux City, and St. Paul. These are favorable points for receiving shipments of live stock and constitute the large live-stock markets of the country. By slaughtering the live stock at these points in the Middle West, a saving in transportation is effected. About 55% of the live weight of a steer is marketed as beef. The remainder is waste or by-product. There is also some shrinkage in weight and deterioration in quality of live stock when shipped long distances. Furthermore, in the case of beef, a period of ripening is desirable. Beef is considered better by consumers ten days after killing than at the time of slaughter. Consequently, the distance from the market is not a disadvantage in locating a beef slaughtering plant.

The largest markets for the fresh meat produced by the big packers is in the Eastern part of the United States. They furnish a high percentage of the total quality of fresh beef consumed in New England and in the North Atlantic district generally. In the Middle West and in the South, their proportion of the total business is substantially smaller, because of the competition of local butchers.

To supply these Eastern markets, fresh meat is shipped in refrigerator cars owned by each of the large packers to its own wholesale branches which are fully equipped for refrigeration. From these branches reports on sales, stocks, and collections are sent to the home office at frequent intervals.

From these branch houses the meat is distributed to retail grocers and meat dealers. About two weeks' time elapses from the purchase of the cattle until the meat is sold and paid for by the retailer. The large meat packer, therefore, has a stock-turn in his fresh meat business of at least twenty-four times a year.

One government report stated that the cost of operating a branch house by the packers was about the same as the total operating expense of an independent commission merchant or wholesale meat dealer[1].

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[1] *Report of the Commissioner of Corporations on the Beef Industry*, p. 263.

The Federal Trade Commission in 1918 summarized the distribution system of the meat packers as follows:

> The packers' distribution of their products is effected through a system of branch houses located in the large towns and cities, and a system of refrigerator "peddler car" routes which reach the smaller communities. Swift & Company reach a larger number of cities and towns by peddler car than all other packers, while Armour & Company have developed a system of delivering from their branch houses by trucks, reaching by this means over 20,000 towns and making their total number of towns greater than Swift & Company.

| | Number Branch Houses | Car Routes | Towns Reached |
|---|---|---|---|
| Armour | 366 | 197 | 24,681 |
| Swift | 343 | 484 | 23,376 |
| Morris | 154 | 229 | 4,019 |
| Wilson | 117 | 187 | 1,903 |
| Cudahy | 113 | 200 | 4,198 |

> This system of wholesale distribution through branch houses and peddler cars is the bulwark of monopoly. There is virtually no limit to the possible expansion of their wholesale merchandising short of the complete monopolization of the primary distribution of the Nation's food.

As a result of its investigations the Federal Trade Commission recommended, among other things:

> That the Government acquire all privately owned refrigerator cars and all necessary equipment for their proper operation and that such ownership be declared a Government monopoly.
>
> That the Federal Government acquire such of the branch houses, cold-storage plants, and warehouses as are necessary to provide facilities for the competitive marketing and storage of food products in the principal centers of distribution and consumption. The same to be operated by the Government as public markets and storage places under such conditions as will afford an outlet for all manufacturers and handlers of food products on equal terms. Supplementing the marketing and storage facilities thus acquired, the Federal Government establish, at the terminals of all principal points of distribution and consumption, central wholesale markets and storage plants, with facilities open to all upon payment of just and fair charges.

(1) How would the adoption of these recommendations of the Federal Trade Commission affect the price of meat?

(2) In December, 1919, it was stated that the Texas Union Packing Company was to build a packing plant at Houston to pack all kinds of live stock products and to operate a canning department for meats, vegetables, and fruits. It was stated that the plant would operate its own refrigerator cars, for reaching inland points, and that it would use refrigerator steamships for exporting to foreign markets.

How would the adoption of the Federal Trade Commission's recommendations affect the marketing problems of this company?

(3) How would the adoption of these recommendations affect the ability of a small independent packer in Wisconsin to compete with the large packers?

## 75. JOHN P. SQUIRE & COMPANY

In Cambridge, Massachusetts, is located the packing plant of John P. Squire & Company, which has a capacity of 6,000 hogs a day. The hogs that are slaughtered at this plant are practically all shipped from the Middle West. Many of them are Iowa hogs bought at Mississippi River points. They are shipped East in train loads according to regular schedules. What factors enable this plant to compete with the Western plants of the big packers?

### 76. SEGREGATION OF GROCERY BUSINESS OF PACKING COMPANIES

As a result of law-suits brought against the big packers by the Federal government, these packers in December, 1919, agreed with the government to separate completely their meat business from the marketing of canned fruits, canned vegetables, canned fish, grape juice, condiments, and a few other products. In July, 1919, Wilson & Company had sold their vegetable and fish canning business to Austin, Nichols & Company, wholesale grocers. The packing companies also agreed to sell their interest in stock yards and their railroads, in terminals, market newspapers, public cold storage warehouses, and similar interests.

Up to this time several of the big packers had used their branch houses, their peddler cars, and their sales force for distributing not only fresh meat but also canned goods and other products sold through retail stores. The Federal Trade Commission criticised this system as one tending to monopoly. The National Wholesale Grocers' Association claimed that discrimination was being shown by the railroads in favor of the big packers, since the packers were able to fill orders for retailers more quickly through their special transportation facilities than goods could be delivered by the wholesale grocers with ordinary freight shipments[1].

What probably will be the effect of this separation of the packers' business on prices and on competition with wholesale grocers?

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[1] The following dispatch was published in the *New York Journal of Commerce*, March 25, 1920: "Chicago, March 23, 1920. Dissatisfied with the recent Government decree, limiting the business activities of 'the Big Five' packers, the National Wholesale Grocers' Association

## 77. International Harvester Company

The International Harvester Company is the largest producer of farm implements in the United States. It manufactures a full line of these products. According to the report of the Commissioner of Corporations published in 1913[1], the company had a much larger share in the production of heavy machinery than in the less expensive tools and implements. It is stated in that report that in 1909 the International Harvester Company produced 85.9% of the binders and headers manufactured in the United States, 77.8% of the mowers, 77.2% of the reapers, 69.1% of the rakes, 73.2% of the tedders, 50% of the spreaders, 43% of the disk harrows, 15% of the farm wagons, and so on for other items.

The International Harvester Company at that time maintained about 90 general agencies in the United States. Each of these agencies was a wholesale distributing branch with an office and warehouse and

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announced today that its case against the packers and the railroad would be reopened before the Interstate Commerce Commission.

The hearing is to be held in Chicago beginning March 26.

Arjay Davies, president of the Grocers' Association, in a communication to the members of the body, declared that the decree obtained by Attorney General Palmer against the packers failed 'to be of much consequence to the wholesale grocers, so far as the propositions are concerned for which we have been fighting before the commission.' Among the reasons given for continuing the hearing were:

"The decree does not affect cheese, butter, oleomargarine and other butter substitutes, lard substitutes, poultry or eggs.

"The decree runs against certain corporation defendants, but does not affect the handling of the so-called 'unrelated' articles by the individuals named in the decree. Other corporations already are being rapidly organized for the very purpose of handling those 'unrelated' commodities.

'The decree fails to apply to the articles listed in the decree itself when handled by other corporations and shipped in the same car with fresh meats and packing house products, provided the car is owned or leased by a railroad company.'

'The basis of our whole case,' the communication says, 'is that commodities not requiring refrigeration and expedited service should not be permitted to mix with packing-house products and fresh meats getting special expedited service. If the packers are permitted to continue to ship our articles with their fresh meats and packing-house products in the same car, it will mean that they will have an unjust advantage over every competitor who does not also engage in the packing business.'"

[1] Bureau of Corporations, *The International Harvester Co.;* see also Cyrus H. McCormick, "What 71 Years in Business Have Taught Us," *System*, September, October, November, 1916.

storage space. Under each branch was a staff of men known as block-men. At that time the average number of block-men to a general agency was eight. These block-men were the principal traveling salesmen of the company and its points of contact with retail merchants. Under these block-men was a more or less mobile and changing force of canvassers, many of whom were temporarily employed. The canvassers' function was to call upon farmers and to assist retailers to sell the company's products.

Each retailer handling the company's products was given an exclusive agency for a brand or brands. In some cases one brand would be given to one retailer in the town and another brand to a competitor.

Sales to farmers were frequently made on long credits, the farmers giving promissory notes which were guaranteed by the retail merchants who assumed the responsibility for making collections.

A stock of machinery and implements was carried at each wholesale house. Stocks of repair parts were also carried there. The machines were shipped to the wholesale branches knocked down. In some cases they were also shipped to the farmers knocked down, the company of course setting up the machines for the farmers at time of delivery. The Commissioner of Corporations reported from his investigations that the percentage of selling expense was higher for the International Harvester Company than for its competitors.

A similar method of wholesale distribution is used by this company's large competitors.

What special considerations favor the establishment and operation of manufacturers' wholesale branches by these large implement manufacturers?

## 78. STANDARD OIL COMPANY

The following statements regarding the petroleum industry were made by the Commissioner of Corporations in his report on the petroleum industry[1]:—

> The peculiar characteristics of petroleum products have led to the development of special methods of transporting, storing, and delivering them. Pipe lines have been comparatively little used for handling refined petroleum, chiefly because most of the refineries are so situated that a large part of the more important movements can be made by water, and because the volume of business over most other routes is not sufficient to justify the construction of a special transportation line.
>
> A very large proportion of the more common products of petroleum is, however, handled by bulk methods. Tank steamers are used for water transportation and tank cars for rail. Moreover, both in this country and in Europe, illuminating oil is very largely delivered to retail dealers by means of tank wagons, and this same method is often used for delivering the product to the final consumer. At least, in the United States, tank-wagon delivery is also often employed for naphtha. The bulk system of transportation and delivery is much cheaper than the use of barrels or other packages, wherever the volume of business is large. Most of the towns of more than one or two thousand inhabitants in the United States have tank-wagon delivery of illuminating oil.

At that time the subsidiaries of the Standard Oil Company delivered oil by tank wagons, through their own wholesale organization, in 81% of the towns for which purchases from them were reported.

What competitive advantages did the Standard Oil Company obtain by means of its system of wholesale distribution?

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[1] *Report of the Commissioner of Corporations on the Petroleum Industry*, Part I, p. 44.

## 79. Cherokee Oil Company

The Cherokee Oil Company has established oil refineries on a large scale in southern Texas, where it is assured of a supply of crude oil. In what markets in the United States will it probably be able to compete most effectively with the former subsidiaries of the Standard Oil Company[1]? Why?

## 80. American Sugar Refining Company—Brokers

In 1912 a new policy in the development of the sales of a branded product was announced by the American Sugar Refining Company[2].

At that time it was reported that the American Sugar Refining Company produced 42% of the output of sugar in the country. A few years previously the company was said to have controlled over 60% of the output, but by disposing of its interests in the beet sugar industry this control had been substantially reduced by 1912. At that time, except for some investment holdings, the company was confining its active interests to the refining and selling of cane sugar. Its refineries were located at New York, Boston, Philadelphia, and New Orleans.

[1] Information on production of crude oil is given in the annual reports of the U. S. Geological Survey on *Mineral Resources* and in trade papers such as the *National Petroleum News*. See also *Report of National Conservation Commission*, Vol. III, pp. 446–460. The plan of dissolution of the Standard Oil Company by court decree is given, in W. S. Stevens, *Industrial Combinations and Trusts*, pp. 407–416, 462–463. A good statement of the properties and operations of the former subsidiaries of the Standard Oil Company is given in *Standard Oil Stocks*, published by the General Service Corporation, New York.

[2] *Printers' Ink*, August 1, 1912, pp. 3–4.

In Boston, sugar was sold direct by the refiners through their own salesmen to wholesale grocers and large retailers in twenty-five barrel lots and upwards. The average retailer bought from a wholesaler one or two barrels at a time.

In New York and other parts of the country, sugar was then sold through brokers. It was sold by the brokers largely to wholesalers, in lots of at least twenty-five barrels for delivery during a specified period of time, usually thirty days. Each wholesaler or large retailer ordinarily bought through the same broker, year after year.

The broker was paid a commission by the refiner of five cents per barrel for New York sales and ten cents for outside sales. A barrel of sugar weighs 350 pounds. The broker performed the regular brokerage function, without assuming responsibility for delivery or collections.

Sugar had been sold for years by wholesalers and retailers on a narrow margin of profit. It was a highly standardized, competitive product, often used as a price leader.

The American Sugar Refining Company before 1912 had already been selling Crystal Domino Loaf sugar in package form. In 1912 it announced the introduction of Crystal Domino Granulated in packages. At the time it was stated that the refiner's selling price of package granulated sugar was to be 3/10 of a cent per pound higher than bulk sugar. This amount was to cover the cost of packaging. The retailer, who paid 3/10 of a cent more per pound, was expected to charge one cent more in re-sale, thus giving what was thought to be a fair profit on sugar. There was also a saving to the retailer in handling, less loss in weighing, and sugar in packages, it was stated, would be cleaner and more sanitary. It was also stated at the time that the package sugar would be of better quality than bulk sugar.

The company announced that its initial expenditure for advertising would be $30,000 in New York City. Sampling was to constitute a part of the campaign.

What attitude was it advisable for a large sugar broker in New York in 1912 to take toward this package sugar of the American Sugar Refining Company?

## 81. IMPERIAL COLLAR MANUFACTURING COMPANY—CLOTH BROKERS

The Imperial Collar Manufacturing Company in Troy, New York, buys cotton cloth in the grey and has it converted on its own account.[1] This cloth is ordinarily bought through brokers. A broker in this trade, as in other trades, is one who acts as an agent in the execution of orders for buyers or sellers. The broker does not have title to the merchandise in the sale of which he assists. He is not identified permanently with any individual buyers or sellers. He is paid a commission, usually by the seller, on the amount of the sale.

What advantages are gained ordinarily by the collar manufacturing company by buying through brokers?

## 82. APPALACHEE COTTON MANUFACTURING COMPANY—DIRECT SELLING

The Appalachee Cotton Manufacturing Company, with a plant located in Georgia, recently took up the question of a change in its selling policy. For twenty years the company had sold its product through a commission agent on customary terms, the commission agent rendering customary services[1], but not holding stock in the manufacturing company. The commission agent had headquarters in New York City.

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[1] See Melvin T. Copeland, *The Cotton Manufacturing Industry of the United States*, pp. 207–217.

The company operated 60,000 spindles and 1,600 looms. Its products were checks, plaids, cottonades, outings, tickings, denims, cheviots, and convicts' stripes. The president of the company was the chief executive officer. He was not interested in any other cotton manufacturing company. His office was located at the mill.

The cotton manufacturing company considered the discontinuance of the plan of selling through the commission agent. It contemplated selling direct.

What did such a change in its selling policy involve for this cotton manufacturing company?

## 83. BLUE RIDGE SPINNING COMPANY AND KEYSTONE MILLS

The following statement was made in a market report on the cotton yarn trade, February 18, 1919:—

> Merchants have been receiving many offers from spinners to send yarns on consignment, to be sold at the best prices they will bring. This sort of tendering would be accepted in normal times. At present, it is felt that, if the consignments were not sold quickly, the spinners would begin asking for advances, and the yarn merchants are trying to avoid such things. It is surmised that, if spinners can get advances or can find merchants who will sell consignments and remit steadily, they will keep their mills

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[1] Melvin T. Copeland, *The Cotton Manufacturing Industry of the United States*, pp. 209–215.

running. Most yarn merchants in this market think the time has come to quit spinning for a time. Otherwise, they believe a very serious drop inprices will ensue, due to accumulations of yarns. Eastern spinners, most of whom held off a long time before revising prices, have begun to put out feelers for orders and are getting some business. Their prices as quoted show less demoralization than southern yarns. The demand from weavers, webbing factories, upholstery plants and other sources of yarn consumption cannot continue much longer on such a low scale as that reported recently. With yarn prices revised thoroughly, some leading merchants expect an improvement soon.

Under these market conditions compare the positions of two Southern cotton spinning companies, the Blue Ridge Spinning Company and the Keystone Mills. The companies are of approximately the same size with plants of 25,000 spindles each. Each of these companies has enough working capital for its needs under ordinary conditions, but only a small surplus. The Blue Ridge Spinning Company has sold direct. The Keystone Mills have regularly sold through a well-established firm of commission agents in New York.

## 84. ROGERS, GRAY & COMPANY— COMMISSION AGENTS

Rogers, Gray & Company are a long-established firm of commission agents in the textile business. They are closely identified with the mills for which they sell. The mills manufacture ginghams, prints, and other finished fabrics, and also grey goods. This firm is organized on the traditional plan whereby there is a separate department for each mill in the offices of the commission agent. Each traveling salesman ordinarily sells only for a single department.

The product of each mill is styled and priced each season independently of the others, under the general supervision of the executives of the firm. No supervision is exercised over the manufacturing operations in the plants. Members of the firm are not treasurers of any of the mills.

What suggestions should be be given for the reorganization of the operating plans of this firm?

## 85. MIDDLESEX COMPANY—EXPORT DEPARTMENT

The Middlesex Company is a commission agent in the textile business. Its headquarters are in New York City, with branch sales offices located in Boston, Chicago, St. Louis, San Francisco, and three other cities. This company sells the product of about fifteen mills located in the North and in the South. These mills operate over 500,000 spindles. They produce standard gray goods, also cotton flannels and other colored yarn goods. The selling house controls through stock ownership about one-half the mills for which it sells. It has an agreement with each mill whereby the commission house gives directions as to the quantity of each style to be produced during the week, month, or other definite period of time. The actual management of the operations of each mill is in the hands of the officers of the mill company.

This selling house is considering the establishment of an export department with its own representatives in foreign markets to develop the export trade in the products of the mills for which it sells. Heretofore some of its goods have been sold for export through other channels.

What will the Middlesex Company need to consider in reaching its decision regarding the establishment of the export department?

## 86. White & Company—Manufacture of Garments by Commission Agents

In May, 1913, it was announced that White & Company, a firm of commission agents, had decided to offer finished lines of aprons and rompers made from ginghams manufactured in one of the mills for which it sold. At the time this announcement was made, some of the trade reports called attention to the fact that the Amoskeag, Everett, and Riverside Mills, all producers of colored yarn cloth largely used in ready-to-wear goods, had tried out the plan of issuing labels to be distributed to the manufacturing trades to be attached to garments. Many labels, it was stated, had been used on garments made from cloth of other mills. The plan proposed by this firm of commission agents included the use of the mill's label on the garments made from the product of the mill.

Numerous large wholesalers operate garment factories, and there are also hundreds of small garment manufacturers to whom these ginghams previously had been sold.

It was further contemplated at the time this announcement was made that, if it were successful, it should be extended to the manufacture of pajamas, night gowns, underwear, etc.

Does this appear to be a practical plan for the commission house to adopt?

## 87. Textile Banking Company

In May, 1919, a joint announcement was made by the Guaranty Trust Company of New York and the Liberty National Bank that incorporation papers of the Textile Banking Company, Inc., had been filed in Albany, and that the new corporation would open for business as soon as the charter was granted. It was stated that the company's headquarters were to be in the up-town wholesale dry goods district. The new company was stated to have the banking support of both the banks making the announcement. The following statement was made regarding its plans:—

> The Textile Banking Company will perform the functions of banker for mills in the textile industry, which functions have been performed for many years by firms known as factors or commission houses. In addition the company will finance the fundamental requirements of mills, such as their raw materials, and in many other ways offer to the mills service which will be very helpful in the operation and expansion of their business.

The Pelican Silk Mills, a medium-size silk manufacturing company in New Jersey, needs financial assistance in carrying on its business, because its working capital is small. What advantages will the silk manufacturing company obtain[1] from securing financial assistance from a bank such as this rather than from a commission house?

## 88. CASTINE MANUFACTURING COMPANY—SALES DEPARTMENT AND STOCK DEPARTMENT

The Castine Manufacturing Company operates a large worsted mill in New England, making goods for both men's and women's wear[2]. This company has decided to sell direct instead of through a commission agent. What classes of buyers constitute its potential market? What market information will it need currently for its sales department?

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[1] James Chittick, *Silk Manufacturing and Its Problems;* also *Daily News Record*, April 9, 1920, p. 1.

[2] P. T. Cherington, *The Wool Industry; American Wool and Cotton Reporter*, April 2, 1914, p. 439; United States Tariff Board, *Report on Schedule K*, pp. 847 *et seq.*

The company, furthermore, is considering whether it should plan to arrange a stock department to carry a stock of finished goods. What factors must be considered in reaching a decision on this question?

## 89. Furniture Exhibitions

In the furniture trade an exhibition is held twice a year at Grand Rapids. Similar exhibitions are held at Chicago and at one or two other points.

At the exhibition in Grand Rapids, for example, sample lines of furniture are displayed by manufacturers. The exhibitions are attended by buyers from all parts of the country. In July, 1916, for instance, it was reported that at the exhibition in Grand Rapids, 330 manufacturers displayed their lines and that the exhibitions was attended by 1,750 buyers. Some orders are given at the exhibitions. In other instances, the buyer waits for the call of a salesman from the manufacturer to place his orders definitely.

Why should the Hudson Company, a large furniture retailer in New York City, send a representative to the Grand Rapids exhibition?

Why are these exhibitions an economical agency for a furniture manufacturer, for example, whose plant is located in southern Ohio?

## 90. Chicago Commission Merchant

In the trade in perishable farm produce there are several middlemen.[1] While each type is distinct in principle, in practice there are frequent instances of overlapping in functions. The chief middlemen in the trade in perishable farm produce in the large cities are the car-lot wholesalers, the commission merchants, the jobbers, and the brokers.

The car-lot wholesaler buys in car lots on his own account and sells in smaller lots to jobbers.

The commission merchant receives shipments on consignment from country shippers and occasionally from farmers. He is paid a commission, commonly about 7% of the selling price. He handles each consignment that he receives according to his own judgment. These consignments may be in car lots or in less than car lots. The commission merchant sells to jobbers or to retailers. He collects payment, and after deducting his commission and any incidental expenses he remits the balance to the shipper.

The jobber is a merchant dealing on his own account. He purchases outright the goods that he handles. He sells to retailers and performs the usual wholesale functions.

The broker acts as an agent for shippers of car lots. He is paid a commission. He may or he may not collect payment for the merchandise that he sells. Before closing any transaction, however, he must obtain confirmation from the shipper as to price and terms of sale. The broker generally handles a much smaller portion of the trade than the car lot wholesalers and commission merchants.

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[1] References on the marketing of farm produce: L. D. H. Weld, *The Marketing of Farm Products*, (bibliography). *Annals of the American Academy of Political and Social Science*, September, 1911, November, 1913. G. K. Holmes, "Systems of Marketing Farm Products," *United States Department of Agriculture, Report No. 98*, 1913. *Report of the Mayor's Market Commission of New York City*, 1913. E. G. Nourse, *The Chicago Produce Market* (bibliography). Arthur B. Adams, "Marketing Perishable Farm Products," *Columbia University Studies*, Vol. LXII, No. 170. J. H. Collins, J. W. Fisher, Jr., and Wells A. Sherman, "Methods of Wholesale Distribution of Fruits and Vegetables on Large Markets," *United States Department of Agriculture, Bulletin No. 267*. Federal Trade Commission, *Report on the Wholesale Marketing of Food*, 1920. The United States Department of Agriculture issued November 1, 1915, a comprehensive *List of Publications on the Marketing of Farm Products*.

Suppose that a new firm is to be organized to carry on a commission merchant business in vegetables in Chicago with ample financial resources. Where would it probably find it advantageous to seek a location for its store? Why? What are the drawbacks to the selection of that location?

## 91. SOURCES OF SUPPLY FOR BOSTON COMMISSION MERCHANT

From what sources[1] does a commission merchant in Boston dealing in berries and vegetables receive shipments? How do the conditions as to the sources of shipments affect the operating expenses of the commission merchant?

## 92. WILLIAM BLACKWOOD—SELLING FARM PRODUCE FOR CHICAGO MARKET

Mr. William Blackwood, a farmer located about 60 miles south of Chicago, with good railroad connections, desires to sell fresh vegetables in the Chicago market. There is little opportunity for organizing a local cooperative association of producers, and few buyers regularly visit the town.

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[1] City Planning Board, *Market Situation in Boston*, 1916.

On 30 acres of his farm he has a large production of fresh vegetables — lettuce, beets, spinach, carrots, squash, radishes, onions, and other vegetables. He is producing under typical conditions, planning his work scientifically so that he has vegetables in the market from the middle of May until late fall. He utilizes certain acreage in rotation so that it produces two crops per season.

What methods can he use for marketing his products in Chicago?[1] Which method is likely to be preferable?

### 93. COMMISSION MERCHANT AND JOBBER

A shipper of berries in the South wishes to establish a new connection with a commission merchant in Boston. He has a choice between two firms, each well established and strong financially. One of these firms, the Dorchester Company, does only a commission business; the other, the Roxbury Company, acts as a commission merchant and also operates on its own account as a jobber.

Which of these firms is to be preferred by the shipper?

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[1] E. G. Nourse. *The Chicago Produce Market.*

## 94. FRUIT AUCTIONS

The general manager of a large fruit shipping organization in the West desires a report on the system of fruit auctions in Boston.[1] What information should be embodied in this report?

## 95. TERMINAL MARKET, BOSTON

The following recommendation was made by the Massachusetts Commission on the Cost of Living in a report dated January 22, 1917.[2]

> In any plan for improved transportation conditions and better terminal facilities, provision should be made for a wholesale terminal market. The wholesale produce market in Boston is located in a district where it was established nearly a century ago. With the growth of the metropolitan district, and the changes in the relation of the Boston market to the other cities in the Commonwealth, the old market district has become more and more congested. Because of the lack of terminal facilities large quantities of perishable fruits and vegetables are carted to the market and then carted back to the freight yards to be reshipped to other cities. Unnecessary carting and loss from exposure cost hundreds of thousands of dollars each year. We believe that the retail and jobbing markets are now conveniently located, but that a wholesale market for commission merchants and other large receivers of produce should be established at the terminal in South Boston. Such a terminal

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[1] A brief account of some experiences with auctions in New York City is given in the *Second Annual Report of the Department of Food and Markets, New York.*

[2] Massachusetts Commission on the Cost of Living, *Report on Relation of Transportation to Prices*, January 22, 1917, pp. 4-5. See also *Report of the Terminal Commission on Terminal Facilities, Massachusetts Senate Document No. 401*, April 1, 1916.

market would benefit consumers in Boston and numerous other cities; it would also afford better marketing facilities to farmers throughout the State.

Discuss this recommendation from the standpoint (a) of a car-lot wholesaler in Boston dealing in berries and vegetables, (b) of a commission merchant who also has a substantial amount of jobbing business.

## 96. WEATHERHEAD & COMPANY—TERMINAL MARKETS, NEW YORK CITY

The following statement summarizes the conclusions of the Mayor's Market Commission of New York City in 1913:[1]

The foregoing analysis of present conditions should make clear the fact that the marketing of farm products in this city today is a problem of distribution from transportation terminals; it can be made efficient only by the coordination of the collection, transportation, and distribution of foodstuffs. In other words, we must develop the type of market here that will make for the quickest receipt and disposal of goods. We must educate shippers to the advantages and needs of this market and the methods to be employed by them to ensure quick marketing of their goods, and the buying public here to watch market conditions so that they may buy more intelligently and so that there may be popular demand for the goods that are plentiful. Only a market which distributes foodstuffs quickly and economically will encourage producers to ship to it.

A study of the geography of the city, the present conditions and methods of marketing, i. e., congestion at downtown terminals, inadequacy of present terminals, amount of trucking and long truck hauls necessary, etc., the difficulties that confront shippers, and the forces that now operate to keep goods from reaching our market, points to the conclusion that the establishment of large terminal wholesale markets in the five boroughs of the city is the first essential step in the bettering of conditions. We have in this city two distinct problems—the problem of the primary or wholesale marketing of the goods when they reach the city in large unbroken lots, and the problem of retail distribution.

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[1] *Report of the Mayor's Market Commission, New York City, 1913*, pp. 10-11.

Though investigation shows the largest increase in prices to be added by retailing, it also shows that the greatest hindrances to efficient distribution exist in the wholesale marketing of the food products received here. Part of the high cost of retailing is due to the quantity and kind of service that the business demands, as compared with wholesaling, and part is due to a lack of responsiveness of retail markets to conditions of supply, because of the chaotic condition of the present wholesale market. Producer and consumer are not kept far apart now by the retailers to any such degree as they are by the cumbersome methods of wholesaling. We have in the city a large number of small grocery and provision stores which serve the people very well. They cater to the needs of their regular customers and are convenient supply depots for apartment house dwellers who have no room to store supplies and wish to buy often and nearby. A type of municipal retail market that can compete with these neighborhood stores has yet to be developed.

Consumers as a class are intensely conservative and slow to change established habits. If they are used to marketing in a certain way at certain kinds of stores, they are not easily induced to change. It would be useless to spend public moneys on a system of retail municipal markets, the success of which would depend upon a considerable change in the habits of the buying public and in the aims of marketmen. The possibility that the city could offer space in its retail markets to dealers at lower rents than those demanded in other buildings does not necessarily mean that for that reason the dealers would sell goods cheaply. On the contrary, their low rents, and the necessarily higher prices outside, would give them a chance for a profit which previous experience indicates they would not share willingly with the public. This condition was found to prevail in one of the retail markets of Berlin. It is difficult to see how it could be avoided in a public retail market, unless the city itself, through its employees, went into the actual buying and selling of food in the markets, or attempted a system of price regulation—practices whose desirability is questionable. Retail prices will be lowered when all are given facilities for buying cheaply and when the forces of demand and supply are given free play.

Systems of municipal retail markets have not been a success where tried in large cities under conditions similar to our own. In Berlin 12 markets out of a system of 14 have been abandoned. They have been gradually given up and the buildings turned over to other uses. The same thing has happened in Paris, where out of an original system of 33 only half are now in operation. Only those in direct connection with the terminal markets have been found to be of value. The case of Jefferson Market in New York is typical of what happens here and elsewhere with this type of market. The trade in Fulton and Washington Markets is becoming more and more a jobbing trade and less a retail trade—supplying large customers like boarding-houses, hotels, and restaurants. The most flourishing public market we have now is West Washington, which is a wholesale market, and, in a way, a terminal market, though its possibilities as such in the way of waterfront development and railroad connection have not been made full use of. As it is, it pays the city a profit of $34,000 annually on the investment.

Whatever form the retail distribution here eventually takes—whether it be private stores, municipal markets, cooperative stores, or what not, it will be essential to have a large, well-organized wholesale market in each borough. That is the first step. The type of retail distributor is of little importance, if it has difficulty in getting supplies.

The idea of wholesale terminal markets is not new outside of New York; it is not new in New York, but it has yet to be recognized and applied here in a large way. In Berlin they have had a wholesale terminal market for over twenty years, the only fault being that it is not now large enough to accommodate the trade that seeks it; they have one in Munich, in Frankfort, London, and other cities abroad. It is the recognized type of municipal market in the larger cities of Germany, where they have given the subject close study. Its effectiveness lies in the fact that such a market cuts out unnecessary steps—it does not introduce radical changes in business methods, but rather gives business men the means for more efficient service. It is axiomatic that business is conservative and slow to change its methods and habits. We recognize the futility of proposing radical changes theoretically alluring or untried methods that will meet with distrust.

The lack of system in the wholesale marketing here today is a handicap to efficient service and a cause of great expense. This expense is of three kinds: one, the actual cost added to the goods for the trucking and rehandling necessary; two, the loss of goods deteriorated through exposure to harmful temperatures after unloading from the cars or through bruising in being handled many times; and, three, the loss of goods kept from market because of the lack of facilities. These three factors would be eliminated in proper terminal markets. It is likely also that in time the expense and loss in regrading goods would be reduced as the market management makes known throughout the producing sections the methods of grading and marketing is of three kinds.

The distribution of food in the city today, as has been shown, takes place chiefly from the primary market in lower Manhattan. While it is true that in most places the ideal condition is to have the wholesale marketing done in one place, where all buyers and sellers may congregate, and that a division of the wholesale market results in a loss in economy, the results of the policy of concentration that confront us today in New York lead to the conclusion that greater economy will be effected in this city by a division of the primary market among the five boroughs. New York City is divided by natural waterways and political lines into what are practically five cities. It has grown too large to depend on one market, and the trade in that market has grown to such proportions that we could hardly build a terminal market large enough to accommodate it without congestion. Even if we could, it would not do away with the necessity of having jobbers' markets to reach out to the retailers in outlying sections, and the latter would be brought no nearer the sources of supply. We believe, also, that, for the present at least, the number of such markets should be restricted to one for each borough, so that each may be assured of as large a supply as possible and may attract as large a number of buyers as possible.

These wholesale terminal markets should be what their name implies—markets on the terminals of as many transit lines as possible, so that they will be supplied with a full range of commodities. They should be union freight terminals with modern marketing facilities. No one railroad brings a great enough variety of products to supply a market with all lines. They should have sufficient space for handling cars from different lines with dispatch. Refrigeration should be provided for both temporary and long storage, and there should be refrigerated rooms into which refrigerated cars could discharge their contents without change of temperature and consequent injury to the goods. The handling of produce should be by machinery as far as possible. Separate parts of the markets should be devoted to the sale of different products, but the market should be so arranged that a dealer could buy his various supplies without going too far. Connected with each market should be a post office, bank, telegraph office, public telephone, restaurant, infirmary, and comfort station. Of course, many details must be left for future elaboration, but it is probable that economy will be effected by having a delivery service by automobile trucks belonging to the market. Each market should also have a retail department and a canning and preserving plant.

A prominent feature of nearly all foreign municipal wholesale markets is the provision for sales at auction of all goods consigned directly to the market, conducted by bonded auctioneers licensed by the city. Such sales are not provided for in any of our public markets at present—there are no markets to which shippers can now consign directly; they must send goods to individual dealers. The auction method is now used here in disposing of California fruits and some few other products, and has recently been introduced into the live poultry trade.

The terminal markets should be self-supporting, the rents charged being sufficient to pay interest on the money invested and a sinking fund, and to cover the loss on the property by exemption from taxation. The markets should not be operated with the purpose of making them a source of revenue to the city, but every effort should be made to have them operated in such a way that the costs of distribution shall be minimized and prices kept at normal levels.

A system cannot hold together or work for a definite purpose unless it is organized and its control vested in a competent executive body. Too many city departments now have authority over the markets. Their powers should be vested in one Department of Markets, to be created by amendment of the Charter. The control is now so split up that (1) the Board of Aldermen has charge of the selection of sites; (2) the Borough President has charge of maintenance; (3) the Department of Finance collects the rents; (4) the Department of Health has charge of the sanitary conditions of the markets and the inspection of food; (5) the Fire Department takes measures for protection from fire; (6) the Policy Department makes traffic regulations, etc.; (7) the Bureau of Weights and Measures has its authority; and (8) the Department of Docks and Ferrics collects dock rents where markets are on the water front. These functions should be centered in one Department, which should exercise supervision over the entire marketing system of the city. It should keep a record of all goods received and sold at the markets, maintain a system of inspection of foodstuffs, issue bulletins of supplies received and market prices, establish standard requirements for packing and grading, etc.

The executive functions of such a Department of Markets should be vested in a Board of Market Commissioners, one from each borough, to be appointed by the Borough President, to serve for a term of years or during good behavior, such Board to choose its own chairman. Such Market Commissioners, as well as the market auctioneers, should be forbidden to have any personal interest in the business done in the markets.

There are within a radius of a few hundred miles of New York many small farmers on whom present conditions are a heavy burden. On their farms quantities of foodstuffs go to waste every year, because the cost of getting them to market is too great. From some places distant for passengers only two hours from New York it takes from ten days to two weeks to get freight here. This is too long a time for perishable products and there is no advantage in sending by express as the rates are too high. In many cases, too, the farmer does not know a reliable dealer to whom to ship. The terminal markets with their auction sales will open the way for these goods to reach the city. As soon as they are in operation it will be possible for the railroads that reach out through the nearby territory to run daily produce trains as they now run milk trains, to which farmers may take produce in any quantities to be sold in the markets at auction, or otherwise, as desired. They cannot do this now as there are no means of disposing of the goods when they reach the city, unless they are consigned to dealers.

Your Commission has prepared plans for such a market as has been described to be constructed in the Borough of The Bronx, based on carefully computed estimates of present and future consumption in the territory such a market will serve. This market will cover 28 acres and will cost, with the land, in the neighborhood of $10,000,000. At an average annual rental of 35 cents per square foot of rentable space, it will return seven per cent on the investment—more than sufficient to pay all the charges of the undertaking. Rental rates in present public and private markets are much higher and the facilities offered much less. The plans include a freight yard with ample unloading platforms; broad driveways for trucks, so arranged that incoming and outgoing traffic will not conflict; selling and storage space; auction rooms; power house; retail market; and ample waterfront facilities.

Discuss this plan from the standpoint of Weatherhead & Company, a Maryland firm that ships fresh tomatoes to New York and other markets in car lots.

## 97. California Fruit Growers' Association—Applicability of Plan to Apple Growing in New England

The California Fruit Growers' Exchange is a cooperative association organized in 1905 as an expansion of smaller associations of similar character. This exchange is a federation through district exchanges of local cooperative fruit growers' associations.

Some of the main points in the organization of the exchange are indicated by the following quotation:[1]

> The general purpose for which the Exchange is instituted is to furnish the facilities and agencies through which the citrus fruits and their by-products of its members and growers represented by them may be marketed and distributed upon a uniform plan and in such manner as to bring about a standard of quality, a more uniform distribution and a larger consumption thereof in the markets of the United States and in other places. In order to make such facilities and agencies available to the grower, the plan of the Exchange includes the organization of the growers into "Local Associations" and the affiliation of those local associations into "District Exchanges."
>
> This Exchange will have as many members as there are District Exchanges under contract, as such, with this Exchange. Each District Exchange will nominate some person to act for it as its member in this Exchange. This Exchange will have as many directors as it has District Exchange members, so that each member thus nominated by the District Exchange will also be a director of this Exchange.
>
> Each District Exchange may at will, and as often as it desires, change its member representative in this Exchange. Upon the certification of a new representative to the Board of directors of this Exchange, the membership of the former representative of such District Exchange shall absolutely cease and terminate. Such new representative shall there-

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[1] *Articles of Incorporation and By-Laws of California Fruit Growers' Exchange*, Article XII, pp. 11-12. Other references on cooperative marketing are the following: G. Harold Powell, *Cooperation in Agriculture*. F. W. Powell, "Cooperative Marketing of California Fresh Fruit," *Quarterly Journal of Economics*, February, 1910. California Fruit Growers' Exchange, *Annual Reports*. B. H. Hibbard, Agricultural Cooperation, *Agricultural Experiment Station of the University of Wisconsin, Bulletin 238*. O. B. Jesness and W. H. Kerr, "Cooperative Purchasing and Marketing Organizations among Farmers," *United States Department of Agriculture, Bulletin No. 547*. W. H. Kerr and G. A. Nahstoll, "Cooperative Organization Business Methods," *United States Department of Agriculture, Bulletin No. 178*.

upon be elected by this Exchange as one of its directors in place of the former member.

This Exchange shall issue a certificate of membership to each member, but the said membership shall not, nor shall the said certificate thereof, be assigned by said member to any other person, and the assignee thereof shall not be entitled to membership in the Exchange or to any property rights or interests therein, nor shall a purchaser at execution sale, or any other person who may succeed by operation of law or otherwise to the property interests of a member, be entitled to membership or become a member of the Exchange by virtue of such transfer. The board of directors may, however, by motion duly adopted by it, consent to such assignment and transfer and to the acceptance of the assignee or transferee as a member of this Exchange, but it is expressly understood and agreed between all of the members that no membership shall be transferred or any membership certificate assigned unless with the consent of the board of directors of this Exchange first had and received. However, when a District Exchange desires to change its member representative in this Exchange from one person to another, the board of directors of this Exchange shall recognize the transfer and assignment of such membership and issue a new membership certificate to such new representative. The manner in which the District Exchange may indicate that it desires to change its representative as well as the method by which any change of such representative is to be brought about, shall be determined by the board of directors of this Exchange by resolution entered upon its minutes.

No person shall be a member of this Exchange unless he and the District Exchange which he represents markets all of the citrus fruits which he and it has to market or dispose of through the facilities and agencies afforded by this Exchange, and if any member or District Exchange shall cease, fail, neglect or refuse for any reason whatsoever to market the whole of such citrus fruits through this Exchange, then in that event the membership of such member and of such District Exchange in this Exchange, and in its property, shall *ipso facto* cease and terminate, and the membership certificate of such member and his membership in this Exchange, and all of the right, title and interest of such member and of such District Exchange therein, shall be thereby cancelled, and such member shall not nor shall such District Exchange be entitled to any appraisement or interest in the property or good will of the Exchange.

Each District Exchange agrees that it will require each of the Local Associations composing its membership to enter into uniform contracts with it in such manner and form as may be prescribed by the board of directors of this

Exchange, which contracts will require each Local Association to market all of the citrus fruit which it has to market or dispose of through this Exchange and said District Exchange.

The voting power and the property rights and interests of the members of this Exchange shall be equal.

The Exchange shall have power from time to time to admit additional members to its organization whenever there shall be in its opinion sufficient reason to make an additional District Exchange advisable, which new member (and the District Exchange which such member represents) shall be entitled to vote and to contribute to and share in the property of the Exchange with the former members, in accordance with the general rule herein stated and upon such terms as may be prescribed upon the admission of any new member, it being the purpose of this Exchange that its facilities be available all times and upon equal terms to all growers of citrus fruits, provided only that such growers shall have first provided themselves with proper local association and district exchange facilities.

The members of the local associations affiliated with the exchange are fruit growers. Each local association, which has 100 or more members, assembles the fruit in its packing house, grades the fruit, packs it, and prepares it for shipment. Some of the associations pick the fruit from the trees, and some prune and fumigate the trees for their members. It is a common practice for each of the local associations to pool the shipments of its members, the fruit to be sold without maintaining the identity of the shipments of each individual grower, the proceeds from the sale being divided pro rata. Such pooling is commonly done on a monthly basis.

The membership in the local associations is voluntary and only for one year. Every shipper reserves the right to regulate and control his own shipments, develop his own brands, and use his own judgment as to how and when it shall be shipped, to which markets, and what prices he will accept. As a matter of fact, however, the grower is largely influenced by the advice of the central exchange.

The local associations are grouped into twenty district exchanges which act as clearing houses. These district exchanges keep records of shipments and destinations and obtain through the central exchange reports concerning market conditions. Through the central exchange instructions are issued regarding prices and destinations and for the diversion of cars and trains in transit in order that the fruit may be sent to the markets that are most favorable.[1] Although only a small percentage of the total shipments are diverted in transit, these diversions preserve the balance of the market.

The receipts from sales of fruits are paid by the central exchange through the district exchanges to the local exchanges. The district exchanges are operated on a non-profit plan. The California Fruit Growers' Exchange, or central exchange, is a federation of these district exchanges. In 1919, the number of individual growers affiliated with the exchange was over 10,000. In 1918-19, 72.3% of the total shipments of citrus fruits from California was shipped through the exchange.

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[1] The following description of methods of diverting shipments is given by F. Andrews, "Reduction of Waste in Marketing," *Year Book of U. S. Department of Agriculture*, 1911, pp. 165-176: "When a member shipped a car of produce, he turned the bill of lading over to the manager of the organization and allowed him to direct the movement of the car to market. The object of having one central authority select the markets was to prevent sending an over-supply to any one place. On receiving the bill of lading, a record of the car was made on a card in the office of the organization and the card filed in its place in a drawer. This drawer was divided into several rows of compartments; each row had 31 compartments, and there was one row for each principal market in the United States. The 31 compartments represented each day of a month. When a card was filed, its location was determined by the destination named in the bill of lading and by the day of the month on which the consignment was due at the destination. For instance, a car load of cherries shipped to New York from a point in the Sacramento Valley on May 27th would be represented by a card filed in the New York row of the drawer and in the compartment No. 7, if the consignment would be due in New York on June 7th. The arrangement of these cards showed at a glance the intended distribution of this association's shipments among the different markets, and when too many consignments of a given kind of fruit were on the way to a given market the grouping together of several cards in one box served as a warning that the destination of one or more cars should be changed. The drawer showed only such fruit as was shipped by the association. News of other shipments and of their probable time of arrival at destination was secured, to some extent, by the association. When it became known that a certain market was about to receive an oversupply of a given fruit, one or more of the shippers who had consigned to that market would be notified by the association manager, so that they might select another city to which to divert their consignments. In case they should refuse to make such a selection, the rules of the association gave the manager the right to divert the shipments himself."

The proportion of fruit shipped through this exchange has been increasing steadily.

There are several significant reasons for the development of this cooperative organization. In the first place, at the time the movement gained headway most rapidly, there was dissatisfaction among the growers with their relations with buyers, commission merchants and others to whom their fruit was sold. Their product was increasing and prices were falling. Gluts frequently occurred in the markets in which the fruit was sold. The blame for low prices and losses was commonly placed upon the middlemen. The growers found that they could obtain lower freight rates, faster time in transit, and less damage to their fruit if they were in a position to contract with the railroad companies for the regular shipment of train loads. The growers also had been gaining experience in united action through their irrigation projects and through the need of common effort in the protection of their orchards. The citrus fruit growing industry in California is specialized and requires large capital.

The chief markets for the California citrus fruits are the cities in the Middle West and in the eastern part of the United States. The fruit is shipped in train loads on regular schedules. Shipments are made daily throughout the year. Refrigerator cars are used, and pre-cooling stations have been established in order to facilitate the proper regulation of temperature for shipments. The central exchange acts as a clearing house for all the district exchanges. It has representatives in all the important markets in the country from whom advice is constantly received regarding market conditions and prices. The fruit is sold for cash, and payment is made through the central exchange. The exchange also collects claims for damage and loss in transit.

The California Fruit Growers' Exchange has developed the Sunkist brand of citrus fruits. Only such fruit as is of first quality is permitted to bear this brand. Shipments that are not up to this standard are sold unbranded. This is one of the chief means that the exchange is using for developing the demand for the products of its members.

The expenses of the exchange were stated in the annual report of the general manager for the year closing August 31, 1919, as follows:

> The sales service of the Exchange cost an average of 4.26 cents per box in 1918-19, and that of the District Exchanges averaged .0094 cents a box, making a total average cost for the Exchange marketing service of 5.2 cents per box, or 1.04 per cent of the delivered value. In addition there was invested in advertising, 2½ cents a box for oranges and 4 cents a box for lemons, making the total sales and advertising expense 1.62 per cent of the delivered value of the fruit. Due to the increased volume of business handled the Exchange selling cost, including advertising, is lower than it was 10 years ago and lower than the marketing cost of any other perishable food product in America.

What are the obstacles to the formation of a similar organization among the apple growers of New England? How could these obstacles be overcome?

## 98. CAROLINA POTATO EXCHANGE

Discuss critically the following By-Laws of the Carolina Potato Exchange:

> Article 1. Objects
>
> The objects for which this corporation is formed according to the articles of incorporation are as follows:
>
> 1. To act as agent for its members and others in marketing all products of N. E. North Carolina and elsewhere; and to buy and sell such products, both fresh and manufactured.
> 2. To establish and maintain uniformly high grades and packs of all products handled by it and to build up a reputation in all markets for goods of the highest quality, uniformly graded and properly packed.

3. To purchase supplies for its members when advisable.

4. To erect, operate and maintain, as occasion demands, plants for production, preservation, handling and sale of fresh and manufactured products.

5. To secure the greatest good to all its members and to that end to engage, when warranted, in such otherwise and advantageous undertakings as shall in no way interfere with its main business of marketing its members' products.

### Article 2. Membership

Section 1. The membership of the association shall be confined as far as possible to actual growers and agricultural land-owners. No one shall become a member of the exchange whose interests are antagonistic to those of the growers.

Sec. 2. All shares must, before issue, be registered on the books of the association, by being surrendered, and new ones issued in the name of the purchaser, who, by acceptance thereof, agrees to all the by-laws and rules of the association, including also all amendments that may be legally adopted, and thereby shall become a member of the company. No shares can be transferred until all claims of this company against the owner of such shares have been paid.

Sec. 3. If any member of the association desires to dispose of his share or shares, he shall first offer to sell the same to the company at market value; if the company decline to purchase, the member may find a purchaser acceptable to the company and have the same transferred to said purchaser on the books of the company in accordance with the rules. If a member removes from the territory and ceases to be a patron of the association and establishes a residence elsewhere, the board of directors shall purchase the share or shares owned by the said non-resident member. Sections two (2) and three (3) of this article shall be printed on each and every certificate of stock issued by the company.

Sec. 4. New members may be admitted by a majority vote of the association.

Sec. 5. Each member shall be entitled to one vote only.

Sec. 6. No member shall be entitled to own more than ten per cent of the capital stock.

Sec. 7. Any member who desires to speculate in buying potatoes or any other products handled by this exchange must first withdraw from membership.

### Article 3. Board of Directors

Section 1. The board of directors shall consist of seven members provided that each local branch is represented on the Board.

Sec. 2. They shall be elected by and from among the stockholders at the annual meeting and shall serve until their successors are duly elected and qualified. Of the directors elected upon completion of the organization, two shall serve one year, two two years, and three three years. The regular term of office of the directors shall be three years. If vacancies occur in the board the same shall be filled by the remaining directors until the next annual election.

Immediately after the election of the directors the newly elected board of directors shall meet for organization and the election of officers.

Sec. 3. The board of directors or executive committee appointed by them shall have the management and control of the business of the corporation and shall employ such agents as they may deem advisable and fix the rate of compensation of all officers and employees.

Sec. 4. The board of directors shall audit the accounts of the association at least once every quarter and once every week during shipping season.

Sec. 5. The board of directors shall meet on the first Saturday of each month and be subject to a call for special meetings at such times as the president or secretary may deem necessary.

Sec. 6. A majority of the directors shall constitute a quorum of the board.

Sec. 7. No member of the board of directors shall be allowed to vote on any question in which he may have any interest conflicting with that of the association.

### Article 4. Officers.

* * * *

Sec. 7. A general manager shall be appointed by the Board of Directors for the shipping season, or longer if necessary. He shall have full charge of inspection, distribution and sales of all products; and it shall be his duty to attend to all collections and claims and payment of net returns to growers and to keep careful records and accurate accounts of all transactions in his department and during shipping season to take care of the funds of the company, receive and apportion funds and, if necessary, write checks provided that during the first shipping season all checks against the Exchange's account shall be signed by the manager and countersigned by the cashier of the First National Bank of Elizabeth City where the funds of the Exchange are kept; and this method of having checks countersigned by an officer of the bank in which the exchange is keeping its funds shall be continued as long as necessary.

It shall be the duty of the manager to keep neat and systematic records which shall at all times be open to the inspection of the Board of Directors, Auditing Committee, officers or members of the exchange. He shall make regular weekly reports to the Board of Directors and shall give such bond for the faithful performance of his duties as the Board of Directors may deem advisable. He shall employ whatever assistance may be necessary to perform the duties of his office.

The manager shall not be permitted to buy for shipment or sale on his own account any of the products handled by the exchange, and the proof of such speculation shall be deemed sufficient cause for his removal from office.

Sec. 8. The offices of Treasurer and Manager may be combined.

Sec. 9. Any director or officer who desires to speculate in buying potatoes or any other product handled by this exchange must first resign his position in the exchange. The position of any director or officer who does buy such products on his own account shall be declared vacant at the first meeting of the Board of Directors.

### Article 5. Capital Stock.

Section 1. The authorized capital stock of this association shall be nine hundred (900) dollars which shall be divided into 180 shares of five (5) dollars each, which shall be paid in at such times, and in such amounts as the board of directors may determine and may be paid either in cash, property, labor or securities, as the board of directors may determine.

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### Article 6. Local Branches.

Section 1. Local Branches may be established wherever consistent with the objects of the exchange. Each local branch may elect at least one director to represent it on the General Board of Directors.

### Article 7. Grades and Inspection.

Section 1. Since one of the primary objects of the exchange is to establish and maintain on all markets a reputation for high quality and correct grades of its potatoes and other products, every member will be required to grade all his products offered for sale through the exchange strictly in accordance with the grades and specifications adopted by the Board of Directors and the General Manager.

Sec. 2. In order to maintain the necessary standards of grades and packs, a general inspector and assistant and local inspectors and agents, if required, shall be employed by the general manager subject to the approval of the board of directors. A local inspector and a local agent shall be employed at every loading point where business justifies.

Sec. 3. It shall be the duty of the general inspector to see that proper and uniform standards of quality are maintained in grade and pack of all products marketed by the exchange. In the performance of this duty, he shall exercise complete supervision and control over the grading, packing, inspection and branding of such products and shall direct and supervise the work of the assistant inspectors and the local inspectors and agents. He shall have authority to transfer local inspectors when advisable. He shall have authority to suspend local inspectors wilfully and persistently negligent of the duties of their offices and to appoint temporary successors pending the next meeting of the board of directors. He shall visit local loading points as often as possible and whenever necessary. He shall report daily to the general manager and shall perform such other duties as the general manager or board of directors may require.

Sec. 4. Each local agent or inspector shall be required to maintain the standards of the exchange as to quality, uniformity and pack of goods and all other essentials. He shall see that all goods leaving his loading point are correctly branded and plainly marked with the number or initials of the shipper as well as the brand of the exchange and grade of the product. He shall be required to furnish the general manager regular daily reports by 'phone or wire of names of all exchange members loading that day at his point as well as the exact number, kind and quality of packages loaded by each grower. So far as possible he shall keep the manager informed as to the amount and quality of products available for the next day's and future shipments. He shall receive, inspect, properly brand and ship or reject all exchange products at his point. He shall furnish each grower a receipt for products received from that grower. He shall report any and all violations by members of the By-Laws and rules and regulations of the exchange.

Sec. 5. Any general, assistant or local inspector or local agent who buys on his own account for sale or shipment any of the products handled by the exchange shall be discharged.

### Article 8. Sale of Products.

Section 1. This organization shall have the exclusive and unqualified power to market those products of its members which the association was formed to sell or consign, provided: If a competitor raises the price of farm products above that which the association can obtain any stockholder may be authorized by the manager to sell his products through an outside agency providing he pays his proper proportion of the running expenses to the association. This sum shall be five per cent of the value of products so sold to a competing concern. Any member who violates the provisions of this section shall forfeit his stock and rights of membership.

Sec. 2. The commission on all F. O. B. sales whether local or by wire shall be five per cent. On consignments the usual fee of commission merchants will be deducted from the gross price. Three per cent of the gross price included in the above charge shall be refunded to the exchange to pay its expenses.

### Article 9. Pooling Prices

At the close of each day's sales the prices of all goods sold F. O. B. loading point and of those taken for the account of the exchange shall be averaged so that each member will receive the same price for the same grade and value of goods sold that day. Returns to members shall be made daily.

### Article 10. Apportionment of Earnings

Section 1. The directors, subject to revisions by the association at any general or special meeting, shall apportion the earnings by first paying dividends on the paid-up capital stock not exceeding six per cent per annum. Then they should set aside not less than ten per cent of the net profits for a reserve fund until an amount has accumulated in said reserve fund equal to thirty per cent of the paid-up capital stock. Then the remainder of said net profits should be distributed by uniform dividend upon the amount of purchases made by shareholders and upon the wages and salaries of employees, and one-half of such uniform dividend should be paid non-shareholders on the amount of their purchases. (This half-rate dividend may be credited to the account of such non-shareholders on account of capital stock of the association.)

Sec. 2. In selling agencies such as fruit, truck, peanut and cotton growers associations, and in productive associations such as creameries, canneries, warehouses, factories, and the like dividends should be prorated according to the raw material delivered instead of on goods purchased. In case the association is both a selling and a productive concern, the dividends may be on both raw material delivered and on goods purchased by patrons. Provided that for the first year all surplus profits, if there be any after payment of expenses, shall be set aside for a reserve fund.

## 99. PUBLIC INTEREST IN COLD STORAGE REGULATIONS

Large quantities of perishable food products are placed regularly in cold storage. The cold storage plants are warehouses in which merchandise is stored for a fee. The proprietors of commercial cold storage warehouses are not owners of the goods stored in the warehouses. Some of the kinds of merchandise for which cold storage is most extensively used are eggs, butter, cheese, apples, meat, poultry, and fish.

*Eggs.* Although substantial quantities of eggs are produced in practically all parts of the United States, the large urban markets in the East and Middle West receive a large portion of their supply from the surplus production in the states of Ohio, Indiana, Illinois, Iowa, Minnesota, Nebraska, Kansas, Missouri, Texas, Tennessee, and Kentucky.[1] The heaviest producing season in these states is the spring months, beginning in March.

Eggs are still primarily a by-product of general farming with the result that in the initial stages of the marketing process there frequently is lack of proper care.[2] Farmers generally take their eggs to market incidentally on a trip to town for other purposes. The eggs are commonly sold by the farmers to country merchants, sometimes to peddlers. The country merchant, who operates a general merchandise store, oftentimes takes eggs in exchange for merchandise. The country merchant, or local peddler, in these middle western states usually sells the eggs that he has purchased to a packer who operates a central shipping plant or packing house. The packer makes his shipments in car lots. It is now the usual practice for the proprietor of the central shipping plant to candle the eggs that he purchases in order to classify them according to quality. After the eggs reach the central shipping plant, they are kept in cold storage and shipped to other markets in refrigerator cars. They are sold by the packer to merchants in the large cities, such as Chicago, New York, and Boston, where large quantities of the eggs are placed in cold storage.

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[1] United States Department of Agriculture, *Year Book*, 1910, p. 462.

[2] *Ibid.*, pp. 466-468.

The quantity of eggs in cold storage during the season 1917-18 was as follows:[1]

COLD STORAGE HOLDINGS OF CASE EGGS IN THE UNITED STATES, 1917–18

| Date | Storages Reporting | Cases of Eggs |
|---|---|---|
| April 1 | 293 | 164,518 |
| May 1 | 313 | 1,818,703 |
| May 15 | 332 | 3,221,970 |
| June 1 | 324 | 4,481,827 |
| June 15 | 311 | 5,661,947 |
| July 1 | 354 | 6,105,570 |
| August 1 | 326 | 6,194,173 |
| September 1 | 360 | 5,893,404 |
| October 1 | 392 | 5,592,897 |
| November 1 | 407 | 4,429,888 |
| November 15 | 388 | 3,653,538 |
| December 1 | 405 | 2,799,012 |
| December 15 | 411 | 1,618,181 |
| January 1 | 414 | 988,228 |
| February 1 | 408 | 191,520 |

The seasonal changes in the quantity of eggs in cold storage are clearly indicated by these statistics.

The following statements regarding the relation of storage to prices are quoted from a bulletin of the United States Department of Agriculture:[2]

> The average selling price of storage eggs in 1917-18 was 37.4 cents per dozen and the total sales value $74,118,668. This shows a gross profit of 1.8 cents per dozen or $3,558,136. If allowance of 4 cents per dozen is made as covering storage, insurance and shrinkage for the season (the figure commonly accepted in the trade), there would appear to have been a net loss of 2.2 cents per dozen, or $4,365,117, aside from the interest on the investment.
>
> The holdings of the season 1916-1917 proved a very profitable investment. The 6,060,129 cases held that season were stored at an average price of 23.44 cents, a total cost

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[1] "Cold Storage Reports, Season 1917-1918," *U. S. Department of Agriculture, Bulletin No. 776*, p. 20.

[2] *Ibid*, pp. 26-28.

of $42,610,154, and sold at an average price of 32.98 cents, or $59,956,025, a gross profit of 9.54 cents or $17,345,871. The actual profit after deducting 4 cents a dozen for storage, insurance and shrinkage, amounted to 5.54 cents a dozen, or $10,073,716, from which must be deducted the interest on the investment to secure the net profit.

In the season of 1915-1916, 6,084,529 cases were placed in cold storage at an average price of 20.82 cents or a total cost of $38,003,968. They were sold at 23.41 cents, or $42,740,045, with an apparent profit of 2.59 cents per dozen, but an actual net loss of 1.41 cents, or $2,565,358, and interest, if an allowance of 4 cents per dozen be made for storage, insurance, and shrinkage.

* * * *

According to the prices quoted on the New York market, if that portion of the public which purchased the cold storage eggs for the season had purchased fresh eggs instead, the 6,602,711 cases which they bought for $74,118,668 would have cost them $99,593,511, or $25,474,843, more than they paid for the storage stock. While it is true that many people could not have afforded the fresh eggs at the prices quoted, and that the consumption would have been reduced, it is also true that the increased demand, on account of the smaller supply available, had there been no storage stock, would no doubt have sent prices much higher.

It is also apparent that, lacking storage facilities, the eggs that were placed in cold storage would otherwise have been disposed of through consumptive channels during the season of production and probably would have caused a substantial reduction in the prices at that time. There is, of course, no means of ascertaining the actual reduction that would have occurred, but it is probable that in many cases the prices would not have covered the cost of production.

*Butter.*[1] As in the egg trade, the large urban markets draw their supply of butter from the dairy districts which produce a surplus beyond local needs. The following statements are quoted from a bulletin of the United States Department of Agriculture:[2]

A considerable amount of butter is placed in cold storage during the season of surplus production, which begins about April 1 and extends into August, when the receipts of fresh butter on the markets are larger than the requirements for the consuming trade. It is a well-recognized fact that storage of butter is an economic necessity, first, as a means of conserving its quality, and, second, as a factor in equalizing the price throughout the various seasons of the year. The better grades of butter are in greatest demand for storage purposes. Many distributors who have a regular established trade make a practice of storing butter in order to be assured of a supply during the winter season. Other dealers store large quantities of butter as a speculative investment.

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[1] An analysis of the relation of cold storage to prices of butter and cheese is given by Elma B. Carr, *Monthly Labor Review*, January, 1920, pp. 100-117.

[2] *U. S. Department of Agriculture, Bulletin No. 456*, "Marketing Creamery Butter," pp. 28-30.

The principal places of storage in the eastern United States are Chicago, New York, Boston, Philadelphia, and Omaha. Among other cities at which considerable quantities are stored are St. Paul, Duluth, Buffalo, Pittsburgh, St. Louis, Kansas City, New Orleans, and Norfolk. On the Pacific coast San Francisco, Portland, Seattle, Spokane, Salt Lake City, and Los Angeles are the principal points of storage. Owing to its geographical location, which permits easy reshipment to the East or South, Chicago is the greatest center for the storage of butter. Omaha is becoming a large storage center for butter made by the centralizing plants in that section. A temperature of zero Fahrenheit or below usually is maintained in butter-storage rooms.

The rates for storage of butter vary in different cities and with different storages. The following schedule is found to prevail with many cold-storage companies:

12½ cents per hundredweight per month for less than car lots.
10 cents per hundredweight per month for car lots.
25 cents per hundredweight per month for small lots stored for 30 days or less.

The customary rate with small storages is one-fourth of a cent per pound per month.

Formerly it was customary for storage operators to negotiate loans on butter through banks, but now many cold-storage houses handle the loans themselves and hold the warehouse receipts as collateral security. The usual interest rate charged on loans is 6 per cent. The charges for insurance range from $4 to $15.50 per $1,000 valuation, depending upon the construction, location, and equipment of the building. These are based upon a yearly period and rebates are made when the butter is carried for a shorter time. The amount loaned on butter varies from 60 to 70 per cent of its value. It is often convenient for butter distributors to deal directly with a storage company in obtaining loans and insurance, and storage companies acting as agents in these lines facilitate their business and fill their rooms. They can also handle smaller accounts and make larger advances, as they have the butter in custody.

The margins on storage butter depend upon a number of factors, such as the keeping quality of the butter, the marginal difference between the price paid and the market value of the butter when it is removed from storage, the costs of storage, and the expense of handling it. It is customary to estimate the carrying charges roughly at one-fourth cent per pound per month. The following statement illustrates the approximate costs for interest, storage, and insurance:

| | |
|---|---|
| Interest on 100 pounds butter at 28 cents for six months at 6 per cent | $0.84 |
| Storage on 100 pounds butter at 10 cents per hundredweight per month for six months | .60 |
| Insurance at rate of 42 cents per $100 for six months | .1176 |
| Cost per 100 pounds for 6 months | $1.5576 |
| Cost per 100 pounds per month | .2596 |

The quantity of creamery butter held in storage during the season 1917-18 was as follows:[1]

COLD STORAGE HOLDINGS OF CREAMERY BUTTER IN THE UNITED STATES, 1917–18

| Date | Storages Reporting | Pounds of Butter in Storage |
|---|---|---|
| June 1 | 235 | 8,436,017 |
| June 15 | 254 | 22,581,838 |
| July 1 | 271 | 46,631,533 |
| July 15 | 241 | 64,525,601 |
| August 1 | 261 | 84,101,347 |
| September 1 | 294 | 98,683,757 |
| October 1 | 320 | 98,749,922 |
| November 1 | 357 | 98,886,972 |
| December 1 | 354 | 77,219,724 |
| January 1 | 337 | 46,956,949 |
| February 1 | 343 | 22,249,328 |
| March 1 | 357 | 18 034,428 |
| April 1 | 360 | 14,581,614 |

*Cheese* The largest cheese producing districts in the country by far are Wisconsin and the state of New York. It is said that approximately one-half the cheese of the United States is made in Wisconsin.[2]

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[1] *U. S. Department of Agriculture, Bulletin No. 776*, "Cold Storage Reports, Season 1917-18, p. 8.

[2] B. H. Hibbard and Ashur Hobson, "Marketing and Prices of Wisconsin Cheese," *Agricultural Experiment Station of the University of Wisconsin, Bulletin No. 251*, p. 3.

Practically all the cheese produced in Wisconsin is made in factories. Some of these factories are owned and operated as independent business units. Others are owned and operated cooperatively by farmers. The cheese is sold from the factory to local buyers, shipped by the factory on consignment to large merchants, or sold to wholesale grocers and other merchants dealing in cheese in cities in various parts of the country.[1]

The cold storage holdings of cheese during the season 1917-18 were as follows:[2]

COLD STORAGE HOLDINGS OF CHEESE IN THE UNITED STATES, 1917–18

| Date | Storages Reporting | Pounds of Cheese in Storage |
|---|---|---|
| June 1 | 313 | 9,553,845 |
| July 1 | 292 | 25,884,240 |
| August 1 | 307 | 60,091,534 |
| September 1 | 323 | 74,300,651 |
| October 1 | 360 | 81,638,837 |
| November 1 | 411 | 84,380,977 |
| December 1 | 419 | 78,765,033 |
| January 1 | 410 | 68,791,566 |
| February 1 | 432 | 55,837,977 |
| March 1 | 448 | 47,726,437 |
| April 1 | 459 | 38,167,559 |
| May 1 | 455 | 24,218,143 |

These statistics are not fully typical of a normal year, because the decrease in holdings during the last months of the season was not as rapid as in ordinary seasons. This was due in part at least to the comparatively small exports of cheese during that year.

From the standpoint of public interest, what should be the fundamental purpose of legislation restricting the time that perishable merchandise may be kept in cold storage?

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[1] A full description of the methods of marketing cheese is found in *Bulletin No. 251* and in *Bulletin No. 231* of the University of Wisconsin Agricultural Experiment Station.

[2] *U. S. Department of Agriculture, Bulletin No. 776*, "Cold Storage Reports, Season 1917-18," p. 16.

# PART V

# METHODS OF MARKETING MATERIALS, EQUIPMENT AND SUPPLIES FOR WHOLESALE CONSUMPTION

THIS group of problems illustrates the methods by which the trade in merchandise for wholesale consumption is carried on:—direct sale, the functions of raw material merchants, organized speculation, problems of financing trade in raw materials, auction systems, the services of middlemen in the trade in semi-manufactured materials, the lease system, and other methods of selling equipment.

## 100. Hawk-Eye Coal Company—Relation to Jobbers

The Hawk-Eye Coal Company operates mines for the production of bituminous coal in Eastern Ohio. The mines of this company have a capacity of 3,400 tons a day. Their product is primarily steam coal, although it also finds a good market as domestic coal when properly prepared.[1] The preparation coal of consists in removing foreign matter and sorting according to size. The Hawk-Eye Company is equipped with modern cleaning and screening machinery.

There are wide differences in the quality of coal from different mines. The following statements were made in a Report of the Boston Chamber of Commerce, November, 1909[1]:

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[1] The average annual production of bituminous coal in the United States 1913-17 was 479,800,000 tons. The average annual production of anthracite coal is about 70,000,000 tons. Anthracite coal is used chiefly for domestic purposes and finds its market largely in the northeastern part of the United States. Elsewhere it is not a serious competitor of bituminous coal. Bituminous coal is produced in about one-half the states in the Union. Four-fifths of the total, however, is mined in Pennsylvania, Ohio, West Virginia, and Illinois. There has been a large increase in output of bituminous coal, the production having more than doubled in the United States during the last twenty years.

> Of the many industries that depend upon coal, each has certain requirements which can best be met by the use of a coal with special characteristics. For instance, the making of coke, the manufacture of gas, and the burning of cement each demands a coal with special qualities. Any coal may be used for the generation of steam, but the differences in character and quality make some kinds preferable to others. Some coals make more smoke than others under the same conditions; some kinds are faster burning than others, making them desirable for a fluctuating load and heavy service in boiler plants; and there is a great difference in the trouble and labor resulting from ash and clinkers. Of still greater importance is the difference in the amount of steam that may be generated from the various kinds of coal.
>
> It is very desirable to know before purchasing coal whether it is going to be suitable for its intended use. While the true test is in its burning, yet there are methods of determining its character and quality which give a reliable indication of what may be expected from it in use, and it is possible to go still further and specify the nature and quality of coal desired and determine whether or not such coal has been delivered. Probably the most practicable method of doing this is by chemical analysis and determination of heating value.
>
> * * * *
>
> The general method of buying coal on specifications is for the purchaser to ask for bids, to be based upon the delivery of coal of a specified analysis, allowing certain variations for the B. t. u[2]. and the various constituents. If the analysis shows variations from the specifications, premiums are paid or penalties exacted in proportion to such variations above or below the standard. In some forms of specifications the bidder submits an analysis of coal he proposes to deliver, and the analysis of the successful bidder is taken as a standard for the contract. In some contracts the adjustment of price is based on the moisture, volatile, ash, sulphur and B. t. u., while in others only the ash and B. t. u. are considered.

Differences are found in coal from different mines that show the same analysis. Consequently experience counts most heavily. When a consumer has found coal that is suited to his needs, he seeks to obtain the same kind of coal from the same source regularly. The product of the Hawk-Eye Coal Company is not sold extensively on analysis.

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[1] Committee on Fuel Supply, Boston Chamber of Commerce, *The Buying and Handling of Steam Coal*, pp. 13 and 21.

[2] B. t. u. means British thermal unit. A British thermal unit is the quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

The Hawk-Eye Coal Company has sold its product up to the present time direct to railroads and through jobbers. The jobber secures orders for the coal. He transmits these orders in his own name to the coal company. The jobber does not carry a stock of coal. He makes collections but receives credit from the coal company equivalent to the credit extended to customers. The jobber knows his customers and has constant personal contact with them. The coal for domestic use is sold by the jobbers to retailers, who distribute it to the individual consumers.

Several of the competitors of the Hawk-Eye Coal Company sell their product direct or through sales agencies. When a sales agency is employed, it has a permanent arrangement with the coal company and takes the place completely of the sales organization of the company.

The product of the Hawk-Eye Coal Company is sold to railroads, and through jobbers to industrial consumers, to the lake trade, and for domestic use. About 60%, it is estimated, is sold for distribution to railroads and industrial consumers. The railroads buy on contracts. Because of the volume of their business and the absence of seasonal fluctuations in their demand, they receive somewhat lower prices than other customers. The trade that is obtained through jobbers from industrial consumers, such as public utility companies, steel companies, and manufacturers, is not subject to seasonal fluctuation. It does vary from year to year, however, according to business conditions.

The domestic trade and the lake trade are highly seasonal in character. The lake trade is cut off during the months when navigation on the Great Lakes is impossible. The domestic trade is active only during the fall and winter. This seasonal fluctuation presents a serious problem, because bituminous coal cannot ordinarily be stored in large quantities. There is too great a fire risk and the storage and handling costs are too heavy to permit of storage in large volume.

The Hawk-Eye Coal Company desires to increase its trade with industrial consumers and to increase its sales for domestic use. Should it continue to sell through jobbers or should it sell direct?

## 101. SUGAR BEET CONTRACTS

The following statement is quoted from a government report published in 1913:[1]

> By far the largest percentage of sugar beets are grown on small plots and the product furnished the sugar factory. In starting a new sugar factory it is generally customary for the factory to buy a number of farms the acreage of which will furnish from one-third to one-half of the supply of beets, but as the company becomes older and more settled the land is often sold off or rented to farmers. In California the individual plots are much larger, and in consequence the number of growers furnishing a sugar factory with beets is smaller than in practically any other state outside of Utah. In Colorado and in Michigan the plots are small, ranging from 5 up to 40 acres in general and in a few cases 100 and over.
>
> The sugar company generally makes three to five year contracts with the farmers to grow beets on a certain number of acres each year. This contract binds the farmer to grow the beets and to have the supervision of the agriculturist of the sugar company. A form of agreement of one sugar company is here given.
>
> Memorandum of agreement between ________________, grower, and ________________.

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[1] *U. S. Department of Agriculture, Report No. 98, Systems of Marketing Farm Products and Demand for Such Products at Trade Centers,* p. 151. See also F. S. Harris, *The Sugar Beet in America,* pp. 92-102.

1. The grower agrees to plant, cultivate, irrigate, harvest, and deliver during the season of 1911, in compliance with the directions of the company, as may be given from time to time, ____________ acres of sugar beets on the following-described lands, to wit, ______quarter, section______, township______, range______, __________County, Colo.

2. Seed will be furnished by the company at 10 cents per pound; not less than 20 pounds per acre shall be planted, and none other shall be used.

3. The grower agrees that all beets grown by him will be delivered to the company, in the factory sheds or aboard cars, and as ordered by the company, properly topped at the base of the bottom leaf, subject to proper deductions for tare, free from dirt, stones, trash, or foreign substances liable to interfere with the work of the factory, and that he will protect the beets from sun and frost after removal from the ground. The company has the option of rejecting any diseased, frozen, or wilted beets, beets of less than 12 per cent sugar or less than 80 per cent purity, or beets that are not suitable for the manufacture of sugar.

4. Beets delivered and accepted will be paid for by the company at the rate of $5 per ton for beets testing 12 per cent sugar, and 33⅓ cents additional for each per cent above 12 per cent.[1]

Payment the 15th of each month for beets delivered during the previous month.

5. The company will pay 50 cents per ton additional for beets siloed and delivered; siloed beets shall not be delivered except upon call of the company.

6. The company will pay the freight on all beets delivered by railroad, but cars must be loaded to their capacity. Extra charges for cars loaded less than capacity will be charged to the grower.

7. The company will give to the grower, at the factory

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[1] The following statement was published in *The Retail Grocers' Advocate*, January 30, 1920: "Denver (Colo.), January 27. Members of the National Sugar Beet Growers' Association, in convention here today, voted to demand more money for their product. A sliding scale, based on the seaboard prices of refined sugar, was adopted.

"The association voted to demand contracts calling for prices ranging from $12 to $21 a ton, based on a minimum of 9 cents a pound for sugar. Each advance of 1 cent in sugar prices would bring $1 50 additional a ton to the growers. Refiners have offered a flat contract of $12 a ton, which the growers rejected. Each State organization, however, was left free to adopt a compromise with refiners from the national organization's schedule.

"Wages of farm labor in caring for the beet crop will be advanced this summer, the convention agreeing to a 15 per cent increase. This was said to mean an increased cost of $4 an acre for cultivation. A 5 per cent increase in wages for labor in thinning and 10 per cent in pulling and topping was adopted. A proposal for $1.00 a ton above the average yield of ten tons to the acre was rejected."

without charge, beet pulp not exceeding 20 per cent of the weight of the beets delivered by him under his contract, providing the grower gives written notice to the company previous to July 1 of the quantity desired; the pulp to be taken by the grower during the time of slicing, as the company may direct.

8. Any advances made to the grower by the company in the way of seed, cash, labor, or otherwise shall be considered as part payment for the crop of beets and be a first lien thereon. The grower agrees not to assign this contract without written consent of the company.

9. No agent of the company is authorized to change the provisions of this contract.

(signature of grower)

______________________________

________________________Company

By____________________________

Date____________________.

This particular form, while used by one large company, represents the general form of contract of other sugar companies.

What does the beet sugar manufacturer gain by contracting in this way for a supply of beets? Are there any disadvantages?

## 102. RED WING MILLING COMPANY—BUYING FROM LOCAL ELEVATORS

Corn is the largest and in the aggregate the most valuable agricultural crop in the country[1]. The annual corn crop is usually about 3,000,000,000 bushels. Corn is grown in all parts of the United States, but Iowa is the center of the so-called corn belt, the region of heaviest production. The other states in the corn belt are Illinois, Indiana, Ohio, Missouri, and Nebraska. A peculiarity of the corn trade is that about 70% of the corn is consumed in the counties where it is grown. Thus, a substantial portion of the crop does not enter into more than purely local trade; it is used locally for the feeding of hogs and cattle. The large hog-raising and cattle-fattening districts are in the corn belt.

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[1] General references on the grain trade: P. T. Dondlinger, *Book of Wheat.* R. E. Smith, *Wheat Fields and Markets of the World.* L. D. H. Weld, *The Marketing of Farm Products. Annals of the American*

The annual wheat crop is usually in the neighborhood of 1,000,000,000 bushels, although subject to rather wide fluctuations. The chief center of winter wheat production is Kansas, Nebraska, Missouri, and Illinois. The leading district for the production of spring wheat is North and South Dakota, and Minnesota. Substantial quantities of both spring and winter wheat are also grown in several other states.

In the Pacific Northwest, in the states of Washington and Oregon, there is a large production of wheat, both spring and winter. The wheat growing district of the Pacific Northwest is entirely distinct commercially from the wheat growing regions east of the Rocky Mountains[1].

In the grain trade generally, elevators are used for handling and storage. In practically every district where a substantial quantity of grain is produced, one

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*Academy of Political and Social Science*, September, 1911. G. G. Huebner, *Agricultural Commerce*. G. Livingston and K. B. Seeds, "Marketing Grain at Country Points," *U. S. Department of Agriculture, Bulletin No. 558*. S. O. Dunn, "Grain Handling in the United States," *Railway Age Gazette*, June 4, 11, 1909. Chicago Board of Trade, *Annual Reports*. Minneapolis Chamber of Commerce, *Annual Reports*. New York Produce Exchange, *Annual Reports*. *Grain Dealers' Journal*. *Northwestern Miller*.

[1] The movement of the grain grown in the Pacific Northwest is westward to the large cities on the coast. There the grain is exported or milled into flour for local consumption or export. The grain exported from the Pacific Northwest goes mainly to Liverpool. When flour is exported, it is generally shipped to the Orient. Prior to the war the exports of flour took place only in years of low prices. (A. Berglund, "The Wheat Situation in Washington," *Political Science Quarterly*, September, 1909, pp. 489-503.) Thus the grain from the Pacific Northwest does not enter into direct competition in the United States with grain grown east of the Rocky Mountains.

One of the chief peculiarities of the trade in grain in the Pacific Northwest is that it has been handled until recently entirely in sacks, not in bulk by means of elevators.

One reason for the use of sacks was the custom which developed before the country was thoroughly opened by railroads. The grain or more grain elevators are located. At the primary markets, at the mills, and at export ports there are large grain elevators. Elevators are used so universally because of the economy that they afford in handling the product. Mechanical means, such as traveling belts, are used for carrying the grain to the storage bins, and, when shipping, the grain is loaded from these bins by the force of gravity. The amount of labor thus required for handling the grain after it once enters an elevator is small. An elevator serves as a warehouse either temporarily or for several months. In the primary markets the terminal elevators also have facilities for cleaning and drying the grain.

Occasionally a farmer with a large crop of grain ships his crop directly to the primary market, either selling it outright or shipping on consignment. This, however, is unusual, and only a very small percentage of the grain crop is thus sold directly in the primary market by the farmers. The bulk of the grain is sold locally by the farmers for cash to grain dealers who operate local elevators, to farmers' cooperative elevators which take the place of independent grain dealers, or to line elevator companies. Occasionally some grain is sold to track buyers, or scoopers as they are sometimes called. Although this has been of enough importance to occasion attempts at boycott by the grain dealers, the volume of the crop handled by track buyers or scoopers is of little significance.

that was exported was formerly shipped by sailing vessels which went around the Horn to Europe. For these vessels it was necessary that the grain be sacked to prevent shifting in rough weather. The trip through the tropics, furthermore, overheated bulk grain. As a result, insurance companies raised the rates on bulk grain to a prohibitive point.

Within recent years the bulk business has begun to develop. Elevators have been built at Tacoma, Seattle, and Portland, and some country elevators have been established. This change was occasioned in part by the increase in price of jute sacks which substantially enhanced the cost of handling by that method. Furthermore, the opportunity for shipping to Europe by steamships through the Panama Canal has tended to remove some of the causes for the previous use of sacks.

The use of elevators, nevertheless, is still retarded somewhat by the large number of varieties of wheat grown in this district, which cannot be mixed in transit. (Howard T. Lewis: "The Elevator Movement in the Pacific Northwest," *Journal of Political Economy*, October, 1916, pp. 794–804).

The Red Wing Milling Company in Minnesota has a large output of high-quality branded flour, which requires evenly graded wheat. If the company determines to buy its grain at country points, why will it probably find it advantageous to buy from grain elevators rather than direct from farmers?

## 103. METHODS OF SELLING WHEAT BY COUNTRY DEALERS

A country elevator usually sells grain by one of three methods: "on track," "to arrive," or "consigned."[1]

When grain is sold "on track," the price is agreed upon before shipment. The seller guarantees that weight and grade loaded into the car agree with the contract and the bill of sale. The buyer pays the freight. When grain is sold "to arrive," it is agreed that it is to be delivered within a specified time at the mill or primary market. The seller guarantees weight and grade at time of delivery. The seller pays the freight.

When grain is sold on consignment, it is sent by the grain dealer to a commission merchant at a primary market. On arrival the grain is inspected and is sold by the commission merchant for a commission, usually one cent a bushel. The rate of commission is determined by the rules of the local trade organization of which the commission man is a member. The commission man collects payment for the grain, and, after deducting his commission and any incidental expenses that have accrued, remits the balance to the grain dealer. Oftentimes the grain dealer draws a draft at time of shipment on the commission man to whom the car is sent, attaching the draft to a bill of lading, and cashes this at the local bank. After the grain is sold, the commission man remits to the grain dealer the balance that is due the latter.

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[1] G. Livingston and K. B. Seeds, "Marketing Grain at Country Points," *U. S. Department of Agriculture, Bulletin No. 558.*

According to an investigation made by the United States Department of Agriculture in 1915, it was reported that approximately 50% of the grain shipped in the Middle West was sold "on track," 20% "to arrive," and 21% "consigned." In Minnesota and the other grain states of the Northwest, the bulk of the shipments were "consigned." In the states east of the Mississippi, on the other hand, the reports indicate that over 75% of the grain was sold "on track." The remainder was divided about equally between "to arrive," and "consigned" sales. In Texas and Oklahoma over 50% was said to be sold "to arrive," and most of the remainder "on track." There was little grain "consigned" in these states.

What are the relative merits of each of these methods of sale from the standpoint of the country grain dealer?

## 104. LINE ELEVATOR COMPANIES

The leading primary markets for wheat are Minneapolis, Duluth, Kansas City, Chicago, St. Louis, and half a dozen other large cities in the Middle West. For corn and oats the leading primary markets are Chicago, St. Louis, Peoria, Kansas City, Minneapolis, and

Milwaukee. The commission merchants, to whom grain is consigned by country elevators, are located in these primary markets. The grain that they receive on consignment they sell to millers, local grain merchants, and export grain merchants.

A second group in the primary markets is made up of grain merchants who buy directly from the country elevators. A third group is the line elevator companies. In the primary markets, like Chicago and Minneapolis, a portion of the elevators are known as private elevators and the remainder as public elevators. A private elevator handles only grain bought and sold by the owner of the elevator. It usually has machinery for grading and blending the grain. A public elevator is a public storage space. It has no machinery for treating the grain, and it is required always to keep the same grade of grain in the same bins. The rates of storage in a public elevator are fixed, and certificates are issued to the owners of the grain stored in the elevator. Each certificate calls for a definite quantity of a specified grade of grain. The identity of individual lots is not, however, preserved. Public elevators are subject to public inpsection and supervision.

A line elevator company has a large private elevator or elevators in the primary market and operates local elevators at country points, having its own buyers purchase grain at these country points for shipment through their own local elevators to the terminal elevator in the primary market. Usually a line elevator company operates on the line of a single railroad company. The Pevey Grain Company, for example, operates largely on the Union Pacific, and the Rosenbaum Grain Company on the Rock Island.

What advantages accrue to a line elevator company? What disadvantages?

## 105. Federal Wheat Grades

At the terminal markets grain shipped on consignment or sold by grade formerly was graded either by inspectors acting under the rules and regulations of a board of trade or by state officials. In Illinois and Minnesota grading at the terminal markets was under the supervision of state officials. The inspector or sampler took a sample from each car, which was preserved for future reference in case of appeal from the decision as to grade made by the inspector. This system of grading still obtains for local shipments of grain, originating within the state in which the terminal market is located.

Grading of interstate shipments of grain, however, is now subject to federal legislation. The Grain Standards Act was passed by Congress in 1916. According to this act the Secretary of Agriculture was authorized to establish official grain standards for corn wheat, rye, oats, barley, flaxseed, and such other grains as he might decide upon. The act provided that grain sold or shipped in interstate or foreign commerce *by grade* must be inspected and graded by a United States licensed inspector. Grain can be sold by *sample or type* without official grading. Provision was made that in his discretion the Secretary of Agriculture might license state inspectors also as federal inspectors.

Federal grades have been established for grain in accordance with this act. The following statement is quoted from a bulletin of the United States Department of Agriculture[1]:

> When a farmer hauls his wheat to a station in his own state and sells it to the local elevator, although it is bought and paid for by grade, he is making a transaction which does not require an interstate shipment. The grade in these cases is usually placed upon the wheat by the elevator manager. It is not then graded by a licensed inspector because the inspectors are seldom located at country points. This feature is unfortunate, but the volume of inspection work at any one country shipping point is hardly ever large enough

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[1] *U. S. Department of Agriculture, Bureau of Markets, Service and Regulatory Announcements No. 54*, "How Hard Red Winter Wheat Is Grading under Federal Standards," p. 2.

or continues over a sufficiently long period of time to warrant inspectors in taking up work at such points. Therefore, the correct grading of wheat at country points is usually a matter between the farmer and the local buyer and is one with which local authorities and not the Department of Agriculture can deal.

Unless this wheat is ground at a local mill, in most cases it is finally shipped to a terminal market, where it is graded by a disinterested inspector who is licensed by the Department of Agriculture, and in deciding the grade of the wheat he uses the grades established by the United States Department of Agriculture—the Federal wheat grades.

What is the significance of the Grain Standards Act from the standpoint:

(a) Of Rudolph Johnson, a farmer raising wheat on a medium-size farm in North Dakota?
(b) Of Eric Wilson, a local grain dealer?
(c) Of the Pilgrim Flour Mills, operating a large plant in Minneapolis?
(d) Of the Pioneer Milling Company, operating large flour mills in Buffalo?

## 106. CHICAGO BOARD OF TRADE CONTRACT

Organized speculation in grain is conducted on the exchanges at Chicago, Minneapolis, New York, Duluth, and several other cities in the grain growing district and in the East[1]. The Chicago Board of Trade is the predominant market for organized speculation.

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[1] H. H. Brace, *Organized Speculation*. P. T. Dondlinger, *Book of Wheat*. S. S. Huebner, "The Functions of Produce Exchanges," *Annals of the American Academy of Social and Political Science*, September, 1911. R. E. Smith, *Wheat Fields and Markets of the World*.

The transactions in the "futures" market on the Chicago Board of Trade are carried on in accordance with the rules and regulations that have been established to govern such business[1].

A "futures" contract is made upon the basis of the specified grade of grain. The contract provides for delivery, either on the buyer's demand or at the seller's pleasure within a specified month at a price fixed in the contract. Provision is made in the rules, however, whereby other grades may be delivered on the basis contract with a stipulated adjustment in price. The following rule governs the grades deliverable on the basis contract of the Chicago Board of Trade[2]:—

> On contracts for grain or flaxseed for future delivery the tender of a higher grade of the same kind of grain or flaxseed than the one contracted for shall be deemed sufficient. All contracts made for Wheat hereafter, unless otherwise specified, shall be understood as for "Contract" wheat, and on such contracts, requiring delivery after June 30, 1917, a tender of No. 1 Dark Hard Winter Wheat, No. 1 Hard Winter Wheat, No. 1 Yellow Hard Winter Wheat, No. 2 Dark Hard Winter Wheat, No. 2 Hard Winter Wheat, No. 2 Yellow Hard Winter Wheat, No. 1 Red Winter Wheat, No. 2 Red Winter Wheat, No. 1 Northern Spring Wheat or No. 1 Velvet Chaff Wheat; and on such contracts, requiring delivery after July 31, 1917, a tender of No. 1 Dark Hard Winter Wheat, No. 1 Hard Winter Wheat, No. 1 Yellow Hard Winter Wheat, No. 2 Dark Hard Winter Wheat, No. 2 Hard Winter Wheat, No. 2 Yellow Hard Winter Wheat, No. 1 Red Winter Wheat, No. 2 Red Winter Wheat, No. 1 Dark Northern Spring Wheat, No. 1 Northern Spring Wheat, No. 2 Dark Northern Spring Wheat or No. 2 Northern Spring Wheat, in such proportions as may be convenient to the seller, subject, however, to the provisions of Section 5 of Rule XXI, shall be deemed a valid tender.
>
> Wheat that is inspected as smutty, or treated by any other process than drying, shall not be deliverable on contracts.
>
> Also on such contracts for delivery of wheat on and after July 1, 1917, a tender of No. 3 Dark Hard Winter Wheat, No. 3 Hard Winter Wheat, No. 3 Yellow Hard Winter Wheat, No. 3 Red Winter Wheat, No. 1 Hard White Wheat and No. 2 Hard White Wheat, at a discount of five cents

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[1] These rules are stated in full in the *Annual Report* of the Chicago Board of Trade.

[2] Chicago Board of Trade, *Annual Report*, 1918, p. 51, Rule XXII, Section 3.

per bushel, in such proportions as may be convenient to the seller, subject, however, to the provisions of Section 5 of Rule XXI, shall be deemed a valid tender; and on such contracts, for delivery of Wheat on and after August 1, 1917, a tender of No. 1 Red Spring Wheat and No. 2 Red Spring Wheat, without discount, and No. 3 Dark Northern Spring Wheat, No. 3 Northern Spring Wheat and No. 3 Red Spring Wheat, at a discount of eight cents per bushel, in such proportions as may be convenient to the seller, subject, however, to the provisions of Section 5 of Rule XXI, shall be deemed a valid tender.

For delivery on and after January 1, 1919, all contracts for corn, unless otherwise specified, shall be understood as for "contract" corn and on such contracts a tender of the following described grades of corn in such proportions as may be convenient to the seller, but in no case an amount less than 1,000 bushels of any one grade in one elevator, shall be deemed a valid tender at the price differences mentioned in the following schedule, subject, however, to the provisions of Section 5 of Rule XXI:

No. 1 White Corn
No. 2 White Corn at ½ cent per bushel over contract price.
No. 1 Yellow Corn
No. 2 Yellow Corn
No. 1 Mixed Corn at contract price.
No. 2 Mixed Corn
No. 3 White Corn at two cents per bushel under contract price.
No. 3 Yellow Corn
No. 3 Mixed Corn—at 2½ cents per bushel under contract price.
No. 4 White Corn at 4½ cents per bushel under contract price.
No. 4 Yellow Corn
No. 4 Mixed Corn—at 5 cents per bushel under contract price.

Provided that No. 4 Corn of the new crop can be delivered only during the months of November, December, January and February.

Contracts covering any of the commodities dealt in under the provisions of the rules of this Board for future delivery in store, or for shipment, or to-arrive, shall be deemed to be for the quality or standard of grade as defined in the rules of the Illinois State Grain Inspection Department, and any change in any such standard of grades and in the rules of the Illinois State Grain Inspection Department defining them, shall be held as not affecting in any way whatsoever the validity of any such contracts pending at time such change is made, and commodities officially graded under the provision of rules in force at time of delivery shall be deemed to be a valid tender on any such contract.

For delivery on and after June 1, 1918, all contracts for oats, unless otherwise specified, shall be understood as for "contract" oats, and on such contracts a tender of the following described grades of oats, in such proportions as may be convenient to the seller, but in no case an amount less than 1,000 bushels of any one grade in one elevator, shall be deemed a valid tender; subject, however, to the provisions of Section 5 of Rule XXI:

Standard Oats, at contract price.
No. 3 White Oats, at 1½ cents per bushel discount.
No. 2 White Oats, at ¼ cent per bushel premium.
No. 1 White Oats, at ½ cent per bushel premium.

Contracts for rye, by grade alone, delivered in store, for immediate or for future delivery, unless otherwise specified, shall be understood as for No. 1 or No. 2 Rye, in such proportions as may be convenient to the seller, subject, however, to the provisions of Section 5 of Rule XXI.

For delivery on and after September 9, 1918, all contracts for barley by grade alone, delivered in store, for immediate or for future delivery, unless otherwise specified, shall be understood as for No. 4 Barley; provided, however, that No. 3 Barley and all higher grades may be delivered at a premium of five cents per bushel, in such proportions as may be convenient to the seller, but in no case shall any amount of less than 1,000 bushels of any one grade in any one elevator be deemed a valid tender; subject, however, to the provisions of Section 5 of Rule XXI.

On contracts for wheat, rye, or oats, for future delivery in store in no case an amount less than 1,000 bushels of any one grade in one elevator shall be deemed a valid tender.

The delivery of grain on the exchange is effected by the transfer of warehouse receipts issued by regular elevators. The following provision is made in the rules of the Chicago Board of Trade[1]:

All deliveries upon contracts for grain or flax seed, unless otherwise expressly provided, shall be made by tender of regular warehouse receipts, which receipts shall have been registered by an officer duly appointed for that purpose. All such warehouse receipts shall be made to run five days from date of delivery on regular or customary storage charges, which regular or customary charges shall follow such warehouse receipts and be chargeable upon the property covered by the same, and shall be issued by such houses as have complied with the Rules of the Board of Trade and the Regulations and Requirements of the Board of Directors, and have been declared regular warehouses for the storage of grain or flax seed by said Board of Directors; and it shall be the duty of the Board of Directors, prior to the first day of July in each year, to inspect all warehouses, the proprietors or managers of which shall apply to have their receipts declared regular for delivery on contracts under the Rules of the Board of Trade, and no warehouse shall be declared a regular warehouse unless it is conveniently approachable by vessels of ordinary draft and has customary shipping facilities, and unless the storage rates on all grain or flax seed in such warehouses in bulk and in good condition, shall not be in excess of one cent per bushel for the first ten days or part thereof, and one-thirtieth (1-30) of one cent per bushel for each additional day thereafter until from and after July 1, 1917, when the storage rates shall not be in excess of one (1) cent per bushel for the first ten days or part thereof, and one-twenty-fifth (1-25) of one cent per bushel for each additional day thereafter so long as such grain or flax seed remains in good condition, and unless the proprietors or managers of such warehouse are in good financial standing and credit, and are carrying on and intend to continue to carry on the legitimate business of public warehousemen under the laws of the State of Illinois and in accordance with the Rules of the Board of Trade of the City of Chicago and the Regulations and Requirements of the Board of Directors and until the proprietors or managers of such warehouse shall file a bond with sufficient sureties in such sum and subject to such conditions as may be deemed necessary by the Board of Directors, under the Rules of the Board of Trade and the Regulations and Requirements of the Board of Directors in reference to warehouses.

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[1] Chicago Board of Trade, *Annual Report*, 1918, p. 42, Rule XXI, Section 1.

Whenever application shall be made by the proprietors or managers of any warehouse to have the same declared a regular warehouse for the storage of grain and flax seed under the provisions of this Rule (except in cases of renewal on the first day of July in each year, as hereinbefore provided) any grain or flax seed that may be contained in said warehouse at the time of such application, shall be required to be removed from said warehouse, when after it shall have been graded and inspected according to its quality and condition then existing by the duly constituted authorities, such grain or flax seed may then again be received into said warehouse and receipts issued therefor shall be registered and dated upon the day when such grain or flax seed is again actually received into said warehouse.

The chief inspector of grain of the State of Illinois may, upon request of the Board of Directors of the Board of Trade, appoint a supervising inspector who shall so supervise the storage and distribution of grain and of flax seed in such warehouse that no discrimination or selection can be made in the quality or grade of grain or flax seed in the delivery of such grain or flax seed.

Warehouse receipts issued by warehouses so declared regular by the Board of Directors shall be regular for delivery on contracts under the Rules of the Board of Trade so long as the said warehouse shall continue to be a regular warehouse, but the term for which any warehouse is declared a regular warehouse to issue such receipts shall be limited to and expire on the first day of July in each year. No receipts issued on grain received in any warehouse shall be regular for delivery under the Rules of the Board of Trade after that date unless the warehouse upon which it has been issued has again been declared a regular warehouse by the Board of Directors; *provided*, however, that receipts issued before the first day of July by warehouses which have been regular warehouses during the preceding year, but which have not been declared regular for the succeeding year, shall be regular for delivery upon such contracts for six months after the first day of July; but nothing contained herein shall prevent the Board of Directors from declaring any warehouse, or the receipts thereof, irregular at any time for violation or non-compliance with the laws of the State of Illinois or any of the Rules of the Board of Trade or of the Regulations and Requirements of the Board of Directors.

*Provided*, that the Board of Directors shall have power, when in their judgment an emergency exists requiring more storage room than can be supplied by the regular elevator warehouses, or because of an inability to obtain insurance on grain stored therein, to declare any storehouses, vessels, or places suitable for the storage of grain or flax seed within the Chicago Switching District—wherein the cost of delivery to vessels or railroad cars shall not be greater than such as is made by the regular elevators for the same service—to be regular places for the storage of grain deliverable under the Rules of the Board of Trade.

And *provided further*, that in case it shall happen that at any time there shall be no warehouses which shall be regular warehouses for the storage of grain and flax seed, then the Board of Directors may declare any warehouses suitable for the storage of grain or flax seed, whose aggregate capacity shall not exceed twenty-five million (25,000,000) bushels, regular warehouses for the storage of grain or flax seed, upon such terms and for such period as the Board of Directors in its discretion may deem necessary or proper, and the warehouse receipts issued by warehouses so declared regular under this proviso, shall be regular for delivery on contracts under the Rules of the Board of Trade, in the same manner as if issued by warehouses declared regular under the foregoing provisions of this section in regard to declaring warehouses regular for the term ending on the first day of July in each year.

All complaints against elevator proprietors under this section shall be heard and decided by the Board of Directors of the Board of Trade of the City of Chicago.

On and after January 1st, 1915, grain in cars, including that graded "subject to approval," shall be deemed a valid tender on contracts during the last three business days of any month, under the provisions of the rules pertaining to the delivery of warehouse receipts—the railroad receipt issued against same evidencing ownership serving to convey the title to the grain, same as warehouse receipts issued against grain in warehouses—when conforming to the following requirements:

A. When within the Chicago Switching District; or, if arriving from outside of the same, when it has reached the railroad yards, where samples are taken by the Illinois State Grain Inspection Department, and when billed to an elevator the receipts of which are regular on delivery; provided, nevertheless, that grain so delivered shall be unloaded into the elevator to which it is billed before the delivery shall be deemed complete, and bills for grain so tendered shall not be due and payable until the elevator receipt covering same shall have been delivered to the buyer. Provided further, that deliveries under this rule may be diverted by the buyer from unloading at a regular warehouse to any other unloading where the same will be weighed by the Weighing Department of this Association, by paying for the property before diversion.

B. When the grade of such grain tendered is evidenced as being a proper grade under the rules for tender, by a certificate of inspection of the Illinois State Grain Inspection Department showing the inspection to have been made during the last three business days of the same month, which grade the seller shall be deemed as guaranteeing to the buyer to remain such until the buyer has had a reasonable time to unload; provided, that tenders of grain loaded from elevators within the Chicago Switching District shall, in addition to the Illinois State Grain Inspection Department certificate, have a certificate of approval of its quality by the Grain Sampling Department of this Board based on examination made during the last three days of the month. Provided, that if the grade of grain in cars inspected is, on reinspection, or on appeal, lowered by the Illinois State Grain Inspection Department, such change of the grade shall not invalidate any deliveries on contracts of grain made before the grade has been so changed; and the adjustment of any damages sustained by the holder of the grain at the time such change in grade is known to the holder shall then be determined on the basis of the market price of the day of delivery and shall become at once due and payable.

C. When covered by a duly authorized "order" railroad receipt showing the grain to be billed to a regular elevator properly endorsed to convey title thereto. The delivery notice shall describe the railroad receipt in its essential features (date, issuing railroad, car number with name or initial and weight of contents), and shall be the basis of computing and determining all items chargeable to the property tendered same as storage charges against warehouse receipts. Provided, that in the event of all regular storage in the City of Chicago being filled, or for any reason unobtainable, and sellers being unable to procure railroad receipts covering consignments of cars to regular elevators, delivery of original bills of lading or railroad receipts issued therefor, the same not showing consignment to any elevator, shall be deemed a valid tender on contracts.

D. When the quantity so delivered is evidenced by weight certificates of the Weighing Department of this Association; or, if evidenced by weight certificate other than above; or, if the weight be estimated on the basis of the rated capacity of the car, such other weight certificate, or such estimated weight, shall be deemed to be guaranteed by the seller to the buyer; and any excess over such weight so evidenced, at time of unloading, if then weighed by the Weighing Department of this Association, shall be settled for at the current market value on the day such variation is known to both parties, and any recess from such estimated weight shall be settled for at the current market value on the day of delivery. The weight of all carlots so delivered and finally unloaded at any elevator, the receipts of which are regular on delivery, shall be deemed the final weights on which settlement is made.

E. At any time when, in the judgment of the Board of Directors, an emergency exists, grain in cars shall be deemed a valid tender on contracts, on any business day of any month, when the grade of such grain tendered is evidenced as being a proper grade under the rules for tender, by a certificate of inspection of the Illinois State Grain Inspection Department showing the inspection to have been made during the preceding seventy-two hours, and when conforming to the other requirements of Paragraphs A, B, C, and D of this Section, except that any excess or shortage in weights at time of unloading, if then weighed by the Weighing Department of this Association, shall be settled for at the current market value on day such variation is known to both parties.

A large portion of the "futures" contracts on the

Chicago Board of Trade and other speculative markets are settled by the payment of differences. If the spot price at time of settlement is higher than the price named in the contract, the difference is paid by the seller. If the spot price is lower than the price named in the contract, the buyer pays the difference. The following statement is quoted from the Rules of the Chicago Board of Trade[1]:—

> In case it shall appear that the delivery of any outstanding trade or contract between members of the Association may be offset by some other corresponding trade or contract, made by the parties with other members of the Association, and the parties to such trade or contract, or their authorized agents, consent to such offset, such trade or contract shall be deemed to have been settled, and any balance between the current market value of the property covered by such trade or contract, and the several contract prices shall be due and payable immediately by the party from whom such balance may be due to the party entitled to receive the same under his contract. The current market value of the property contracted for shall be conspicuously posted, at a stated hour each day, under the direction of the Board of Directors, in the Exchange Hall and in the settlement room of the Board, which posting shall serve as a basis for the adjustment of all contracts settled, as herein provided on that day.

Why should grain of more than one grade be made deliverable on such a contract?

A large flour manufacturing company with mills located in Minneapolis buys its wheat direct from local elevators. Of what importance to this company is the organized speculative market?

Take the case of a local farmers' elevator located at a country point in North Dakota. How can it use the "futures" market of the Chicago Board of Trade? Should it ordinarily use that market?

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[1] Chicago Board of Trade, *Annual Report*, 1918, p. 54, Rule XXII, Section 6.

## 107. CHANCELLOR MANUFACTURING COMPANY—BUYING COTTON DIRECT FROM FARMERS

The average annual production of raw cotton[1] in the world during the five crop years ending August 31st, 1909-13, was 17,948,000 bales, the standard bale weighing 500 pounds. The United States supplied 72.6% of this total production, an annual average of 13,000,000 bales. India supplied 18.5%, Egypt 7.1%, Turkestan and South America most of the remainder. From the crop of the United States 64% was exported. American mills have been taking a greater and greater proportion of the raw cotton crop of the United States, but this country, nevertheless, still supplies a large part of the demand throughout the world for raw cotton.

The bulk of the cotton grown in the United States is known as Upland with an average length of fiber for the common grades of ¾ of an inch to an inch. In the bottom and swamp lands of Alabama, Mississippi, Arkansas, and Louisiana along the Mississippi River, long staple Upland cotton is grown with fibers from 1⅛ to 1⅝ inches in length. The best grades of these are called "Benders" and "Peelers". The most valuable cotton produced in this country, or elsewhere, is the Sea Island, grown on the islands along the coast of South Carolina and Georgia. The average length of Sea Island staple is 1¾ inches, ranging from 1½ to 2½ inches. The Sea Island crop seldom exceeds 100,000 bales; it is generally less than 1% of the Upland crop, and it is tending to decline in quantity.

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[1] References on the raw cotton trade include:—U. S. Commissioner of Corporations, *Report on Cotton Exchanges*. Melvin T. Copeland, *Cotton Manufacturing Industry of the United States*. G. G. Huebner, *Agricultural Commerce*. John A. Todd, *The World's Cotton Crops*. National Association of Cotton Manufacturers, *Year Book*. U. S. Bureau of the Census, *Cotton Production and Distribution* (annual). L. Conant, "The United States Cotton Futures Act," *American Economic Review*, March, 1915. I. N. Hoffmann, "The Cotton Futures Act," *Journal of Political Economy*, May, 1915. D. E. Earle and W. S. Dean, "The Classification and Grading of Cotton," *U. S. Department of Agriculture, Farmers' Bulletin No. 591*. W. A. Sherman, Fred Taylor, and C. J. Brand, "Studies of Primary Cotton Market Conditions in Oklahoma," *U. S. Department of Agriculture, Bulletin No. 36*. U. S. Department of Agriculture, *The Market Reporter*, April 10, 1920. *Commercial and Financial Chronicle*. *Economic World*. *New York Journal of Commerce*.

Each of these types of cotton has its own uses. The Sea Island is used only in spinning very fine yarns, the long fibers permitting it to be drawn out into a fine thread. The long stapled Upland cotton is also used for fine spinning, and falls into approximately the same class as Egyptian cotton. Some Egyptian cotton, it may be stated, is imported into the United States especially for the manufacture of hosiery and automobile tire yarns. Indian cotton is of short length and low grade; it has been used particularly in Central Europe for the manufacture of coarse yarns. Upland cotton supplies the large trade intermediary between these extremes. Upland cotton, however, varies in length and strength of fiber, in color, and in freedom from dirt, and possesses characteristics peculiar to the locality in which it is grown. With the machinery and methods in vogue a century ago cotton was cotton, but as a result of refinements in technique and diversification of product, now-a-days a spinner gives careful attention to the exact quality of the cotton that he purchases.

The first stage in the movement of cotton from the farm to the factory is to the gin. Soon after it is picked, the farmer takes his cotton to the gin in a nearby town where the seeds are removed. At the gin the cotton is packed loosely in large bales. Ordinarily it is sold by the farmer immediately after ginning. Oftentimes the Southern farmers are in debt to the local merchants for supplies sold to them on credit during the growing season. These merchants often have a lien on the cotton as security and to them the indebted farmer must sell. In some instances the owners of plantations have maintained their old relations with the factors at the ports who give them financial assistance during the growing season. The cotton from these plantations is consigned to these factors for sale on commission. Farmers who are not under financial obligations to a local merchant or to a factor sell their cotton ordinarily at the country point where it is ginned. Sometimes the farmer places it in a warehouse or he may haul it back to his farm, to be stored frequently in the dooryard without protection from the weather.

In the country towns where the cotton is ginned, it is ordinarily sold by the farmer or the country storekeeper to representatives of firms of cotton merchants. These firms of cotton merchants are of several types. Some are operating on a small scale, buying for resale in larger lots to other merchants. At the other extreme are a few large firms of cotton merchants, who buy at local points in the South and maintain selling offices in the large cotton manufacturing districts in the United States and in Europe. The cotton merchant pays cash for the cotton that he buys, and sorts the cotton into even running lots for resale. From the country points cotton moves toward larger central points where the small cotton merchants frequently sell to export buyers or other large dealers in raw cotton.

A cotton merchant before buying a bale of cotton from a farmer extracts a sample from the bale. Each sample weighs from one-half to one pound, and oftentimes two or three holes are cut in the bale for sampling before the cotton is sold by the farmer. Each time thereafter that the cotton is offered for sale, a sample is taken for inspection to determine its quality.

The following statement regarding the pulling of samples is given in a bulletin of the Department of Commerce published in 1912.[1]

> The merchant, who as a rule purchases for future sale, retains a liberal sample, which is given a mark or number corresponding to that previously attached to the bale, and which may be divided into several samples to accommodate prospective buyers. The bulk of the cotton is sent to the compress for recompression, and if not previously sold for delivery is stored at the compress at fixed charges for warehousing, insurance, etc., the minimum charge being for one month. The warehouse facilities are very limited and therefore the bulk of the cotton awaiting sale and delivery is massed on the streets in so-called cotton districts, in inclosed areas destitute of covering, on platforms at railroad stations and steamship terminals, some of which are

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[1] John M. Carson, "Packing and Marketing of Cotton," *U. S. Department of Commerce and Labor, Special Agent Series No. 58*, p. 9.

covered in whole or part by a roof but none of which is inclosed, so that the property is without proper protection. Recompression does not insure the bale not sold for delivery against further sampling, with resultant damage to the covering and loss of cotton.

The custom of pulling samples is strongly intrenched, first, because of long usage; and second, because it is highly profitable to merchants and factors. Its continuance is naturally desired by those benefited. The buyer at points distant from production regards it with favor because the sample furnished assists him in determining the quality of the cotton or in confirming the judgment of his agent. The merchant and factor and other intermediaries favor it because each sample pulled has intrinsic value. The aggregation of these samples at the close of the season forms a considerable portion of a bulk estimated at 100,000 bales. This has become known as the city crop, and its average annual value is placed at $4,000,000. The income to individual middlemen from sales of samples varies according to the number of bales passed upon and pulled. The city crop is said to contribute largely toward paying running expenses of many business houses that raise or pull it. The statement has been made that as many as 45 or 50 bales of cotton derived from pulling samples have been sold at the close of the season by an individual concern.

At some convenient point in transit or at the port, the cotton is compressed; the gin bale is put into an hydraulic press which increases its density and reduces its size, in order to economize in handling.

If the Chancellor Manufacturing Company, with a cotton mill of 60,000 spindles manufacturing medium grade grey cloth, located in central Georgia, undertakes to buy its supply of cotton direct from farmers, what does it gain? What disadvantages does it incur?

## 108. DUKE MANUFACTURING COMPANY—BUYING FROM COTTON MERCHANTS

The Duke Manufacturing Company in Fall River, Massachusetts, operates a mill of 75,000 spindles for the manufacture of standard print cloth. This company ordinarily buys its raw cotton from cotton merchants who have representatives located in Fall River. What advantage is there to the Duke Manufacturing Company in following this policy?

## 109. EFFECT OF INTRODUCTION OF GIN-COMPRESSED BALE ON MARKETING METHODS

An ordinary gin bale or "plantation" bale of cotton measures about 56 by 30 by 48 inches and the density is about 12 pounds per cubic foot. An ordinary recompressed bale measures about 56 by 30 by 24 inches and has a density of about 24 pounds per cubic foot.

During recent years there has been some increase in the use of what are known as high density bales and gin-compressed bales. A gin-compressed bale measures about 48 by 18 by 30 inches or 54 by 26 by 20 inches and has a density of about 30 pounds per cubic foot.[1] Inasmuch as the high density bale cannot be sampled according to the ordinary methods, the covering remains intact and therefore the cotton is better protected in handling. Some manufacturers have not been in favor of the high density bale, because they believe that the quality of the fiber is injured by the greater compression. This is a disputed point.

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[1] John M. Carson, "Packing and Marketing of Cotton," *U. S. Department of Commerce and Labor, Special Agents Series No. 58*, pp. 10, 19, 21.

The gin-compressed bale, according to estimates made by the Conservation Division of the War Industries Board during the war, if universally used in the South, would yield a saving of 272,700 car loads of freight space in a year. It would also yield a saving of about 170,000 tons of steel for ties and also a substantial quantity of bagging.

How would the general introduction of the gin-compressed bale necessarily affect the methods by which cotton is bought and sold in the South?

## 110. WATKINS & COMPANY—COOPERATIVE COTTON WAREHOUSES

The following statement is quoted from a bulletin of the United States Department of Agriculture:[1]

Financing the cotton crop is one of the most difficult, and at the same time one of the most important problems confronting the southern farmer and the southern business man. In the light of all the facts it seems reasonable to state that but little cotton would be stored or insured if it were not necessary to do so in order to negotiate loans with cotton as collateral. The banks are entirely willing to advance money on cotton on liberal terms when it is properly stored and insured, but they are not always able to advance these necessary funds. Even in years when prices are satisfactory, and but little cotton is held, it takes enormous sums of money to finance the marketing of the crop, and when the market is unsatisfactory and many persons wish to hold their cotton for better prices, it is almost impossible for the present banking institutions to supply the necessary funds. The farmer frequently has no operating capital and that of the bank is limited. Consequently, when a market for cotton practically disappears, it is impossible for the banks of the cotton-producing section to meet their obligations. Success in developing an adequate and efficient system of storage houses depends largely upon obtaining sufficient capital to finance the cotton crop. Many letters from bankers, warehousemen, and business men generally, indicate an entire willingness and even eagerness on their part to erect storage houses of sufficient capacity, if only money could be obtained in order to enable farmers and others to hold cotton.

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[1] Robert L. Nixon, "Cotton Warehouses," *U. S. Department of Agriculture, Bulletin No. 216*, pp. 2–5, 10–12.

It would seem that the banks would increase their capital stock to such an extent that they would be in position to advance all the funds needed. But it must be remembered here, as stated in connection with storing cotton, that it is only when the market is unsatisfactory that the farmer needs to hold his cotton and therefore needs an unusual amount of capital. The banks, of course, can not keep on hand unlimited funds to meet this occasional demand. It also must be remembered that the farmer is not always reasonable in his demand for funds at such a time. When cotton is bringing 13 or 14 cents per pound he often sells his crop as fast as it is ginned without reference to the disastrous effect it may have on the market, spends the proceeds, and devotes all his energies to raising a large crop for the following year. While the cotton is growing he spends for his supplies on the basis of a full crop for which he expects to receive the maximum price. When, because of overproduction or unusual pressure on the market, the price falls appreciably, he finds that the merchant's equity in the cotton is greater than its cash value. He then expects the banks to advance him money on the basis of the prices that prevailed when conditions were favorable, or perhaps on the cost of production. While cotton is recognized as the best collateral, it will not be accepted by business men on such conditions.

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It can readily be seen that one of the greatest needs of the cotton farmer is to get away from the present credit system. Many, especially those of the tenant class, pay the supply merchant an advance of from 25 to 35 cents on a dollar's worth of supplies, and these supplies are actual necessities. These accounts ordinarily run from six to eight months. Such exorbitant rates of interest would be disastrous to any class of people. When the crop is harvested the farmer disposes of his cotton and settles his accounts with the proceeds, provided, of course, that he receives sufficient funds for this purpose. Then it is usually necessary for him to mortgage his next year's crop to the supply merchant in order to obtain credit, which is necessary to enable him to live while the crop is being made. While it is difficult to see how this situation can be remedied, owing to the fact that these tenants have no means of living while the crop is being made without trading with supply merchants, it does seem that the situation would be improved greatly by establishing a system of warehouses and encouraging the tenants to store such cotton as is not absolutely necessary to settle their accounts. If this plan should be pursued for two or three years, while economy in living was exercised, many could eventually free themselves from the present system.

The merchant is almost as helpless as the farmer. He advances supplies while expecting cotton to bring a fairly good price. In most cases he has bought his stock on time and cannot meet his own obligations until the farmers' accounts are paid. Whenever the price is so low that the farmer fails to meet his obligations, the merchant is likely to be seriously embarrassed. Late in 1914, for instance, many farmers refused positively to sell their cotton, and many of them failed to meet their obligations, thus making it especially hard on the merchant. When the price is unusually low, the merchant can not afford to "close out" the tenant. The cotton, if thrown on the market, would not bring enough to settle the account. If the merchant insisted on selling the cotton he necessarily would lose much of the money due him.

It is equally true that the local banker is helpless in such a situation. His bank advances some money to local merchants and some to the farmers. He has borrowed most of this money from some larger institution which is usually located outside of the cotton-producing section. He is supposed to pay this money back at the time that cotton is picked. When the farmer fails to meet his obligation the merchant naturally finds it difficult to pay his banker. Then the local banker is dependent upon the mercy of the larger institution.

A well-organized system of cotton warehouses would be of the greatest assistance to the farmer, the supply merchant, and the local banker in financing the cotton crop, especially in tiding over an emergency. There is a serious need for warehouses whose receipts would be accepted as an absolute guarantee that a certain amount of cotton of a definite grade and in marketable condition had been stored with the warehouse company. Under such conditions it would be very easy for the farmer to store his cotton and offer the receipts to his supply merchant as collateral for extending the time in which his account must be paid. The merchant in turn could surrender these receipts to the local banker and extend the time of his loan. The local banker would then use these receipts in a similar way to extend the time of his loan with the larger institution. In practically every instance the large banker would be glad to extend the time of payment when these receipts were offered as collateral. In many instances the rate of interest would be greatly reduced. This is one of the very important functions of an efficient system of warehouses, and the need of such a system is extremely urgent.

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While an attempt has been made to show that in storage capacity the warehouses now in use are fully adequate, it is not meant to convey the impression that those who produce cotton can get proper and efficient warehouse service. This is far from the case. Most of the best storage houses belong to the cotton mills and to cotton factors or commission merchants. The mills have built their warehouses for storing the cotton which they buy for spinning. They were never intended as public storage houses, and they are available for such use in very few instances. The factors have not built warehouses for the purpose of doing a storage business, but in order to aid in their regular transactions. But few of these persons would build warehouses for the storage fees they collect, but they are forced to operate the warehouses in order to handle the cotton which is consigned to them for sale. It will be seen, therefore, that but few of the best storage houses now in use are available to the farmer unless he is willing to ship his cotton to the factor and pay him a fee for selling it, in addition to regular storage charges. Many farmers are averse to shipping their cotton to another town and consigning it to a factor or commission merchant. They usually expect to receive the money at the time the cotton is delivered. Many farmers are reluctant to pay any charges whatever. This attitude is unfortunate, for it eliminates them from participation in the use of the best storage facilities.

The service rendered by the small warehouses in the primary markets is almost universally unsatisfactory. The warehouse owners are not to blame for this poor service. The cost of handling is much greater than in the case of larger establishments, and the insurance rate is usually four or five times as great as in the standard warehouses in larger towns. One might at first be inclined to think that they should erect costly buildings, but in most cases this would not pay, for there is not a sufficient volume of business. Very few farmers will store their cotton when the market price is fairly satisfactory. A good storage building might be erected in a small town and a fair profit be made for one year, but it might be four years or even longer before it would again be well patronized. The chances are that during this period the fees collected would not pay the cost of operation. The investor would lose all of the money made in one year in addition to the interest on the funds invested in the building. The result is that most of the warehouses erected in such towns are owned primarily by merchants or cotton buyers for use in connection with their business. They are not intended for the use of farmers, and when a year of very low prices comes they are not in position to render the service that the farmer expects.

From the foregoing it would seem that the most satisfactory solution of the situation would be for the farmers to form cooperative associations and build their own storage houses. They can not expect others to invest thousands of dollars in storage houses that will lie idle for several years and make a profit for only one year. No business men will invest their money in such a way. Farmers must build their own storage houses or remain dependent upon the merchants and cotton factors. It would seem also that the mills and trade in general should encourage the preservation of cotton by storage by discriminating individually against "country damaged" cotton. This would put a premium on cotton in good condition and would thus tend to encourage storage.

It has been stated that in the aggregate storage capacity present facilities are ample but the warehouses are not properly distributed. The investigation showed that in many places in every State, including those with the greatest number of warehouses, thousands of bales of cotton are "stored" on the streets and platforms, or left about gins and farms, while all the warehouses in use are filled to their greatest capacity. In other sections of the same State, frequently in the same county, warehouses were found that are used very little. This indicates that very poor judgment has been exercised in the location of storage houses and that those who have cotton to be protected can not get the service which might be expected.

Discuss the proposed solution from the standpoint of Watkins & Company a firm of cotton merchants that sends its buyers to the local markets in the South and maintains sales offices in various cotton manufacturing districts in the United States and Europe.

## 111. UNION WAREHOUSE CORPORATION

In 1919, it was announced that the Union Warehouse Corporation was being organized for handling raw cotton. It was to have $20,000,000 capital stock. The purpose was to purchase, lease, and otherwise acquire existing warehouses, remodeling them, and also to erect such structures at important northern and southern points for the storage of cotton. It was anticipated that the corporation would engage eventually in compressing, baling, banding, and covering cotton in a manner that would insure against damage in transit.

The management of the company, it was stated, was to be in control of a board of directors chosen from the various branches of the cotton industry so that every phase of the industry would have one or more representatives thereon. For the managing head, an experienced cotton warehouseman of the South was to be chosen. The headquarters of the company were to be in New York City.

All warehouses were to be constructed on the "unit system." Each unit would be capable of storing about 10,000 bales. Thus the warehouses could be expanded at a minimum cost to meet the requirements of future growth. The cotton was to be stored in them so as to secure the lowest rate of insurance. In general the warehouses were to be constructed and operated, it was said, so that the receipts issued for goods stored therein would be prime evidence of ownership, weight, grade, and deliverability and would be accepted as collateral at all banks that made a practice of loaning money on cotton. Negotiations were on foot, furthermore, with British banks and buyers of cotton to the end that receipts for goods stored in one of the warehouses of the Union Warehouse Corporation would be acceptable as collateral in England at banks, thus facilitating export transactions.

It was stated that this promised to be one of the largest cotton warehouse companies in the world. It was proposed to start with an initial capacity of 1,500,000 bales of which 500,000 bales were to be in existing warehouses that were to be purchased. The ultimate capacity was to be about 3,000,000 bales. Points at which eventually the corporation planned to establish warehouses were as follows:

| City | Initial Capacity | Ultimate Capacity |
|---|---|---|
| Dallas or Fort Worth, Texas | 100,000 | 200,000 |
| Waco, Texas | 30,000 | 60,000 |
| Houston or Texas City, Texas | 200,000 | 400,000 |
| Oklahoma City or Muskogee, Okla. | 50,000 | 100,000 |
| Little Rock or Pine Bluff, Ark | 50,000 | 100,000 |
| Clarksdale, Greenville, Rosedale, or Greenwood, Mississippi | 40,000 | 80,000 |
| Memphis, Tennessee | 300,000 | 600,000 |
| Montgomery or Birmingham, Ala | 50,000 | 100,000 |
| Mobile, Alabama | 100,000 | 200,000 |
| Savannah or Brunswick, Georgia | 100,000 | 200,000 |
| Greenville or Columbia, S. C | 40,000 | 80,000 |
| Providence, Rhode Island | 100,000 | 200,000 |
| Fall River, Massachusetts | 100,000 | 200,000 |
| Framingham or Mansfield, Mass | 200,000 | 400,000 |

What advantages in this plan would probably contribute to the success of the undertaking? What were the obstacles to be overcome?

## 112. Central Bill of Lading Bureau

If a farmer decides to hold his cotton before selling it, he may put it into a local warehouse, provided one is available, and with the warehouse receipt as security obtain a loan from a local bank. When a merchant buys cotton from farmers, he ordinarily places it in a warehouse, if it is not to be shipped immediately, and uses the warehouse certificates as security for a loan. When shipment is made, the railroad bill of lading takes the place of the warehouse receipt as the security for the loan. The movement of the cotton crop is largely financed by means of bank loans secured by warehouse certificates or railroad bills of lading.

The method of financing foreign shipments was briefly described as follows in an article in the *Railway Age Gazette.*[1]

> When the cotton arrives at the compresses, in many cases owned by the railways, the local bills of lading are, or should be, surrendered in exchange for compress receipts, which are in turn exchanged for foreign-order bills of lading drawn to the order of the cotton shipping firm and calling for the shipment of the cotton to Liverpool or some other foreign city. These bills of lading are attached to a draft drawn by the cotton shipping firm on a Liverpool bank, for instance, and this draft with its bills of lading is in turn attached to a bill of exchange on New York on which the local Texas or Mississippi bank advances money to the cotton shipping firm. These two drafts, the one drawn on New York being indorsed by the local bank, are sent to the local bank's correspondent in New York City, where the New York bank pays its correspondent's draft. This closes the transaction as far as the local bank is concerned; its liability has been cancelled and it has received the money that it advanced to the cotton shipper. The New York bank is now in the position of having advanced the money to the cotton shipper direct, and holds as security a draft on a Liverpool bank with bills of lading attached. It then ships the drafts with the bills of lading to Liverpool, and when the Liverpool firm has accepted the draft the New York bank's liability does not cease. It simply has the added protection of the foreign banker's acceptance. But between the time that the New York bank has paid its correspondent's draft and the time that the Liverpool bank accepts the draft drawn on it by the cotton shipper the New York bank is responsible for the entire amount that has been advanced, and has as its only security the bills of lading. The difficulty at present is that, in the first place, the New York banks don't want to accept this responsibility, and, in the second place, the foreign bankers have become so suspicious of the genuineness of the bills of lading that they refuse to accept drafts unless the American bankers will virtually guarantee the genuineness of these bills.

The difficulty referred to in the latter part of this quotation arose from the so-called Knight-Yancey case.[1] This firm of cotton merchants failed April 20th, 1910, with liabilities of over $5,000,000 and assets of $1,400,000. It was stated at the time that this firm had operated by means of spurious bills of lading. A spurious bill of lading was used as a means of obtaining money with which the firm went out and bought cotton. The cotton was then shipped for delivery on the forged bill of lading. The firm extended its operations, however, until insolvency resulted, and the English banks which held drafts secured by these spurious bills of lading were said to have suffered heavy losses.

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[1] *Railway Age Gazette,* July 15, 1910, p. 119. See also J. J. Arnold, "Financing of Cotton," *Annals of American Academy of Social and Political Science,* September, 1911.

In April, 1911, a plan was adopted to prevent, if possible, the recurrence of the use of spurious bills of lading. This plan provided for the establishment in New York of a Central Bureau to which all advices of bills of lading issued were to be sent. The Central Bureau was opened September 1st, 1911. According to the plan, the shipper received the bill of lading with a validation certificate attached. The railroad agent forwarded to the Central Bureau a signed copy of the bill of lading and a duplicate validation certificate. The railroad agent sent to the auditor of his railroad a triplicate validation certificate. The Central Bureau filed the bill of lading by the railroad, town, and number, and notified the railroad that it had received a copy of the bill of lading. The shipper filled out a blank to be sent to the Central Bureau by the buyer of the bill of exchange. The master receipts issued by steamship companies were sent to the Central Bureau to complete the file. The Central Bureau was to give notice when fraud was detected. One hundred and sixteen railroads signed the agreement with the Central Bureau and the bankers' association. It was expected that the constant scrutiny of the bills of lading forwarded to the Central Bureau and the checking up of inaccuracies with the railroads would prevent further use of spurious bills of lading. This Central Bureau was to be operated by European dealers at their expense.[1]

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[1] Notes on this case were given in the current issues of the *Commercial and Financial Chronicle.*

In September, 1913, it was stated that very little attention was being paid to the Bureau by the foreign exchange bankers and brokers interested in cotton bills of lading. It was stated further that only two to five per cent of the total bills issued were thus verified. How is this to be explained?

## 113. EMERSON & COMPANY—USE OF NEW YORK COTTON EXCHANGE

Emerson & Company, cotton merchants in Boston, accept an order from a manufacturer for 5,000 bales of one-inch Texas middling cotton at a specified price. Should Emerson & Company use the New York Cotton Exchange in connection with this transaction?

## 114. SEBAGO MILLS—HEDGING

The Sebago Mills, a cotton manufacturing company with a large plant located in New Hampshire, buy their supply of cotton during the season as conditions in the raw cotton market seem to warrant. If the purchases of raw material during the season are not adjusted closely to the current manufacturing requirements of the mills, how can this company hedge its purchases? Why is hedging not commonly practiced by cotton mills?

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[1] *Commercial and Financial Chronical*, September 20, 1913, p. 778.

## 115. LONGYEAR & BLACK—FINANCING COTTON IN STORAGE

Longyear & Black, export merchants, buy 10,000 bales of middling cotton in Georgia in November. This cotton is shipped to Savannah and stored there. To finance their operations, these merchants seek a loan from a bank with the warehouse receipt as security. How will the value of this security be affected if the cotton is hedged?

## 116. NANTUCKET COMPANY—MARKET INFORMATION

The Nantucket Company operates a mill of 120,000 spindles in New Bedford, Massachusetts. It manufactures fine white goods, using high-grade, inch-and-a-quarter cotton. What information does the Treasurer of this mill need to guide him in purchasing his raw material? When does he need this information?

## 117. BOSTON WOOL MARKET

The annual production of raw wool[1] in the United States in recent years has been about 290,000,000 pounds. This is about 10% of the total world production. The domestic production of raw wool is about one-half of the domestic consumption in the United States. Over one-half of the annual clip in the United States is grown in the far West:—Wyoming, Montana, Idaho, New Mexico, Oregon, California, Utah, Colorado, Nevada, Arizona. The wool grown in this section is known as territory wool. It is the product of a specialized industry. The size of the average flock of sheep in this section is about 1,000. There are numerous instances, however, of larger flocks of 5,000, and even up to 10,000 sheep.

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[1] For additional information on the raw wool trade, see P. T. Cherinton, *The Wool Industry;* also F. R. Marshall and L. L. Heller, "The Wool Grower and the Wool Trade," *U. S. Department of Agriculture, Bulletin No. 206*, and *Bulletin of the National Association of Wool Manufacturers.*

In the Middle West, centering around Ohio, is another wool growing region. The product of this section is known as fleece wool. Here wool growing is incidental to general farming. The average size of a flock in the fleece wool district is under 50. The fleece wool is of different grade and is used for different purposes than the territorial wool.

In each district the quality of wool from the same flock varies from season to season, according to weather and feed conditions.

In a single fleece, furthermore, there are several qualities of wool and a wide variation in the length of the fiber in different parts of the fleece. Another peculiarity of the wool trade is the shrinkage that takes place before manufacturing. Some fleeces shrink 50% of their original weight; others as high as 70%. This shrinkage is the result of the extraction of the animal fat or grease from the fiber.

In the territorial wool district the wool is ordinarily sold immediately after shearing. It is hauled by the grower to the shipping point, such as Billings, Montana, Great Falls, Rawlins, Phoenix, and similar points. At these towns buyers employed by wool merchants in Boston and Philadelphia congregate. They purchase the wool ordinarily in the grease after inspection. In some instances the wool is sold on a scoured basis, in which case the grower assumes the risk attendant upon the uncertainty as to the degree of shrinkage. The grower is paid cash by the merchant.

From the market points in the Far West, the wool is shipped immediately to the wool merchants in the

East, who maintain large warehouses for the storage of their purchases. The wool merchants classify and grade the wool in their warehouses.

The trade in fleece wool is carried on similarly, except that a large portion of the fleece wool is sold by the growers to country merchants, either general storekeepers or local wool merchants, who in turn sell to the buyers from the Eastern wool houses.

In some years when the prices offered at the country points, either in the territorial district or in the fleece wool district, do not seem satisfactory to the growers, the wool is consigned to merchants or commission houses in the East to be held until the growers give instructions for its sale.

Why does the wool market center at Boston?

## 118. Early Contracting in the Wool Trade

In some seasons numerous wool merchants adopt a policy of contracting with growers several months before shearing, usually in the fall or early winter, for the clip of the following spring season. This is sometimes called "buying on the back." In a trade report published in Boston, November, 1919, the following statement was made:—

> A danger is that the scarcity and the abnormal prices that are being paid in this market may lead to premature contracting of the coming territorial clip. Contracting was very heavy in the last two months of 1916 and in at least one recent year the end of October has seen a fair percentage

of the territorial clip involved. Conservative wool men always have deprecated this early contracting and undoubtedly will continue to do so.

Why should this practice be deprecated?

## 119. PEJEPSCOT MANUFACTURING COMPANY—WOOL AUCTIONS

The London Wool Auctions are one of the prominent institutions in the wool trade of the world[1]. These auctions have been in regular operation for a period of eighty-five years. Ordinarily there are six series of sales each year—January, March, May, July, September, and November.

The wool that is offered for sale at these auctions is English Colonial wool, Australian wool predominating. No domestic wool and no South American wool is sold at these London auctions. The wool that is sold is ordinarily consigned to the order of financial houses in London, who have made advances to the growers. The shipping facilities of London have been one of the reasons for the development of this business.

For a period of at least ten years before the war, the quantity of wool sold at the London auctions had been practically constant, in the neighborhood of 700,000 to 800,000 bales per year. During this time the exports of wool from Australia and South Africa had heavily increased, but with the increase in the volume of exports there had also developed more direct buying in the Colonial markets by English wool firms and especially by wool merchants and manufacturers of the continental countries of Europe.

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[1] The best description of the London Wool Auctions is given in J. H. Clapham, *Woollen and Worsted Industries*, pp. 90–98.

These auctions are attended by representatives of English wool merchants, Continental wool merchants, and American wool merchants and manufacturers. They are open to anyone who wishes to buy. The prospective buyers look over the catalogues of samples that are prepared by the selling brokers. These inspections of the samples are indispensable. At these auctions the bidding is to some extent by wool merchants and manufacturers personally, but more frequently their bids are made through buying brokers. The buying brokers are employed especially by those buyers who do not purchase in very large quantities. The buying broker receives a commission of ¼%. The terms are cash. Payment is to be made within seven days, and the wool must be removed from the warehouse within a week.

It has been proposed from time to time that a similar institution should be established in Boston, in order to give that city greater eminence in the wool trade of the world. What attitude toward this proposal should be taken by the president of the Pejepscot Manufacturing Company located in Massachusetts? The company purchases large quantities of domestic and foreign wool of Australian grade through the regular channels.

### 120. CATTLE LOAN COMPANIES

The beef supply of the United States comes from two main sources:—(1) dairy cattle; (2) range and ranch cattle.

Dairy cattle are in part slaughtered by local butchers, and the beef is sold locally or shipped to nearby markets. In some districts, especially in the Middle West, dairy cattle are sold by the farmers to local shippers for shipment to the large primary markets. During the last few years several hundred cooperative live-stock shipping associations have been organized in the Middle West, in competition with the local shippers[1].

A large portion of the supply of cattle for the big packing plants at the primary markets is furnished by range and ranch cattle. These cattle are raised by farmers who specialize in this business. In the marketing of these cattle, frequently there are several steps. In normal years, for example, large numbers of young cattle in Texas are sold for shipment to the ranges in the northwestern states, such as Montana and the Dakotas. Other Texas cattle are sold to the local packing plants, for shipment to the corn belt, or to the primary markets in the Middle West. Cattle that have been raised or grass-fed on the northern ranges are shipped usually in the fall to the primary markets. Some of those which are shipped to the primary markets are sold there to feeders and reshipped to the feeding pens in the corn belt for further fattening. These shipments from the ranches and ranges are commonly in train loads. It is a bulk business.

The farmers and cattlemen who buy cattle for feeding in the corn belt keep the cattle in their possession during three or four months in the winter and spring in order to prepare them for market. The feeding district is in the localities where a large supply of corn is grown and in fairly close proximity to the primary markets.

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[1] *U. S. Department of Agriculture, Farmers' Bulletin No. 718,* "Cooperative Live Stock Shipping Associations."

The primary markets for cattle are the following[1]:—

RECEIPTS AND DISPOSITION OF CATTLE AT PUBLIC STOCKYARDS, 1919

| Market | Receipts | Local Slaughter | Stocker and Feeder Shipments | Total Shipments |
|---|---|---|---|---|
| Chicago...... | 4,253,408 | 3,032,001 | 508,793 | 1,221,407 |
| Denver....... | 823,727 | 174,350 | 483,326 | 642,496 |
| East St. Louis. | 1,472,830 | 1,018,740 | 234,045 | 454,150 |
| Fort Worth... | 1,266,635 | 715,090 | 326,983 | 475,386 |
| Kansas City... | 3,085,007 | 1,617,169 | 1,035,609 | 1,466,643 |
| Omaha....... | 1,975,236 | 1,135,517 | 658,354 | 839,719 |
| St. Joseph.... | 750,151 | 531,100 | 124,096 | 218,991 |
| St. Paul...... | 1,490,926 | 529,562 | 416,408 | 935,176 |
| Sioux City.... | 814,093 | 362,570 | 328,984 | 458,915 |

The cattle are shipped to these primary markets by their owners on consignment in car lots to commission men. In the stockyards at the primary markets all sales are made by the commission men to whom the cattle have been consigned. The rate of commission is fixed by the local association of which they are members. The cattle are sold by public auction in the stockyards, usually within twenty-four hours after arrival. The chief buyers of cattle are the representatives of the large packing companies and to some extent firms of exporters. The cattle are sold for cash and, after deducting his commission and any incidental expenses, the commission merchant remits the proceeds of the sale immediately to the cattle shipper.

The cattle trade is one in which special methods of financing have been developed. Owners of cattle that are not intended for early shipment or that are to be kept on the ranch for breeding purposes or for growth before marketing frequently require loans. These loans are long-time loans. They are made by local banks or by individuals acting as private bankers.

For financing the trade in beef cattle which are to be fattened on the ranges or in the corn belt, a large volume of short-time loans is made each year. These loans usually are for a period of three to six months. The loans are liquidated when the cattle are sold. Many loans of this type are made to the cattle men by cattle loan companies[1]. There are cattle loan companies with headquarters in all the primary markets. The largest of them generally are affiliated with large banks located near the stockyards. The cattle loan companies are operated as distinct corporations, but in close cooperation with the banks. Cattle loans vary in size from $500 to $1,000,000. The average loan is probably $10,000 to $20,000.

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[1] *U. S. Department of Agriculture*, "The Market Reporter," January 17, 1920, p. 36.

The steps taken by a cattle loan company are as follows[2]: After an application has been received, the cattle loan company makes an inquiry regarding the moral hazard, ability, experience, financial standing, and equipment of the prospective borrower. The company ordinarily requires a sworn statement of the borrower's assets and liabilities.

An expert in the employ of the cattle loan company inspects and grades the cattle that are offered as security and furnishes a written report, stating the brands by which the cattle are identified. In preparing a report of this sort on a large herd, expert knowledge of cattle is essential.

An inquiry also is made regarding the prospective borrower's equipment of feed, water, shelter, fences, and help.

A search is made of records in the locality where the cattle are and a certificate is secured from the proper officials to show to whom the title to the cattle belongs.

If the loan is granted, the cattle loan company takes the note of the borrower at the agreed rate of interest. The loan company then ordinarily discounts the note at a bank with the cattle loan company's endorsement.

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[1] Charles S. Cole, "Cattle Loans and Their Value to Investors," *U. S. Department of Agriculture, Year Book,* 1918; E. M. Larner, "The Cattle Loan Company," *Journal of Political Economy,* October 1918.

[2] W. B. Harrison, "Facts about Cattle Loans," *Successful Banking,* June, 1916.

The following statement summarizes the policy of the cattle loan companies in regard to the amount that they lend[1]:—

> Ability to handle stock properly and advantageously is essential if the safety of the loan is not to be impaired. The growth and development of stock furnishes a margin of safety, since this is depended upon to care for declines in the market. The collateral taken is supposed to be sufficient to take care of any normal market fluctuations and the growth of the stock is supposed to take care of unusual declines. It is apparent, therefore, that the cattleman's ability properly to take care of his stock is fully as vital as the collateral he offers.
>
> The amount loaned is from half to full value of the stock. It is customary to loan from 75 to 80% of the value of the stock on the ground that 20 to 25% is ample margin for safety. Sometimes, especially in the case of feeders, if the applicant has a reputation for finishing his stock for market and has ample feed, he can obtain a loan equal to the market value of his stock at the time of borrowing. The condition of the market has a bearing upon the making of such loans. Unlike other collateral, live stock becomes more valuable by growth and by increase. Because of these two factors, the hazards of loaning are greatly reduced and the margin required for safety need not be as great as that ordinarily required in loans on other chattels. The conservative loaning agency, however, requires a safe margin in addition to the feed on hand, except in cases where the applicant's financial ability justifies the loan on grounds other than the collateral offered.

How do the methods of selling cattle at the primary markets affect the policies of a cattle loan company in making loans on cattle?

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[1] Charles S. Cole, "Cattle Loans and Their Value to Investors," *U. S. Department of Agriculture, Year Book*, 1918, p. 5.

## 121. William Jackson—Sale of Cattle

The following statement was made by a state official in Texas, December, 1919[1]:—

> We have been seeking for some time a practical method of selling live stock for slaughter which would enable the producer to be a party to the sale. Under present methods, the grower is compelled to make blind consignment to some agency at the stockyards and to sell almost immediately upon arrival; or do worse by holding over at large expense. How many times would shippers refuse what they are compelled to accept, could they turn the stock back to the range or feeding and wait for a better offer? Under the present method, practically all meat stock becomes distressed the moment it is loaded.
>
> * * * *
>
> My conviction is that the people will either establish cooperative local slaughter houses, or the packers will eventually control not only the live stock but all the primary necessities of life. However, my purpose in this article is to start some discussion as to means of assisting live stock producers, in absence of the abattoir. We are going to considerable expense and trouble to inspect live stock for the purpose of controlling or eradicating communicable diseases; why not go a step further and establish grades, and have the inspector to also grade the live stock with a view to selling f. o. b.? This would give the grower an opportunity to hold back his shipment when the price did not suit him.
>
> I realize that such plan would entail some trouble as to detail, but the same is true of every great worth while movement.

Analyze this statement from the standpoint of William Jackson, the owner of a 400,000-acre ranch in the central part of Texas. Mr. Jackson has about 10,000 head of cattle.

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[1] *Monthly News Bulletin*, Austin, Texas, January 1, 1920.

## 122. HIDE TRADE

The following statements are quoted from a bulletin of the United States Department of Agriculture[1]:—

Packer hides and skins.—Packer hides and skins are taken off in establishments where the slaughtering is of a wholesale character, and where men usually are employed exclusively for the purpose of removing hides. In the plants of the large packers the labor is so divided that each worker has a particular task to perform, in which he becomes very proficient. Since they are taken off in large numbers, the hides are uniformly selected and cured, and generally are free from salt stains and excess salt or pickle. The result is a product of uniform selection, of good pattern and trim, and with few imperfections, making possible a maximum yield of leather of the best quality.

Country hides and skins.—Country hides and skins are taken off by farmers, ranchmen and local butchers or by their helpers, who generally are inexperienced in skinning. This classification includes "fallen" hides, or those from animals that have died from disease, accident, or natural causes, as well as those from animals that have been slaughtered for food. Country hides originate in small numbers, in scattered and remote sections of the country, and seldom are treated in a careful and efficient manner with respect to skinning, curing, and marketing. The result frequently is a poor product of irregular pattern and trim, with many imperfections; such hides and skins are usually handled several times before being available in uniform selection. Not only is the yield of leather from such hides and skins comparatively low and uncertain, but the leather is capable of only limited use.

* * * *

The United States Department of Agriculture receives many protests from farmers and butchers against the wide difference that exists between the prices paid them for hides and the prices charged them for leather. This condition is the result of many factors, most of which are not peculiar to hides and leather, but apply equally to many other commodities. After the producer sells them, the hides must pass through numerous necessary processes of further marketing, transportation, and manufacture before being converted into leather, which in turn undergoes many additional processes in being made into finished articles and in being sold. It must be remembered also that a loss, based on the weight of the salt-cured hide, of from 10 to 30 per cent, occurs in tanning. The wide difference between the prices of the raw and the finished products, as well as the low prices paid for country hides and skins as compared with the prices paid for those marketed by the packers, is also due partly to several factors less difficult to control than those just mentioned. Among them is the general inferiority of country hides and skins, due to indifferent and improper methods of handling and to the lack of a well defined and closely followed system of classifying and marketing them. Much improvement is possible along these lines, and this rests almost entirely with the farmer and the country butchers.

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[1] *U. S. Department of Agriculture, Farmers' Bulletin 1055,* "Country Hides and Skins, Skinning, Curing, and Marketing," pp. 3–4, 9–11, 42–43, 46–51.

There are three important operations in the handling of hides and skins: Take-off or skinning; salting and curing; and marketing. Every effort should be made to perform these operations properly and efficiently, bearing constantly in mind that the hide or skin, as well as the meat, is an article of value. To the small butcher, and even to the farmer with only an occasional hide or skin to market, the avoidable loss is appreciable, and collectively it amounts to millions of dollars annually. The correct methods of skinning, salting, curing, and marketing, when carefully followed, will more than offset the little extra time and effort required, by the improvement in quality and the better returns.

* * * *

The grade terms employed in marketing country hides and skins are somewhat indefinite and are not uniformly understood and applied throughout the United States. At present there is no recognized standard of classification uniform for hides and skins originating in all sections of the country. This is due partly to former haphazard methods of marketing and partly to the alleged differences in the quality and condition of these products in different sections of the country. It is asserted that the conditions which produce these differences on which the resulting price differentials are based are noticeable especially in the grain, texture, thickness, spread, and quality of the leather, and that they are caused largely by climatic conditions, methods of handling cattle, kinds of cattle, kinds of feed, methods of feeding, ticks, grubs, brands, environment, and the methods employed in skinning, curing, and marketing the hides. Because of these conditions the hide trade has divided the United States into nine sections, and discriminated accordingly in the prices paid for similar classes and weights of hides and skins originating in the various sections.

* * * *

While improvement of country hides and skins and consequent increase in returns for them are possible, yet even with hides and skins similar in quality to those produced by the packers it is not possible for the individual producer, who must operate on a small scale and market more or less indirectly, to receive the top prices paid to the packers, who generally sell directly to the tanners.

The tannery is generally the destination of all hides and skins, and efficient and economic marketing will place them at the tannery door at the earliest practicable date in the best condition possible and with the aid of only the essential marketing agencies. Each tannery, however, as a rule, specializes in certain kinds of leather, and consequently must have uniformity in its supply of hides and skins. Since the tanner is not in a position to handle all kinds and classes of these materials, some central collecting and classifying agency is necessary.

It is here that the packers have an incalculable marketing advantage over the country-hide producers. The packers deal in large numbers of hides and skins and as a result can can assort and classify them in marketable lots, and sell them directly to the tanner or with the occasional intervention of only one agency, namely, the hide broker or tanner's buyer. The extremely scattered sources and the comparatively small individual production of country hides and skins make it impossible for the country-hide producers to obtain this advantage. These widely scattered materials first must be collected and classified in large lots. Consequently, before reaching the consumer or tanner, they pass through many hands, each one of which exacts its toll.

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The opinions of the trade are divided over the practicability of dispensing with the services of the traveling hide buyers or agents of the large hide dealers in central markets. Their salaries and traveling expenses range from half a cent to 3 cents a pound of the hides they buy, depending on the volume of business they do and their efficiency in buying. Those opposed to these agents advocate marketing direct from producer to the large dealers who sell direct to tanners. They assert that the expense necessary to the maintenance of a traveling buying force should be paid to the producer or be used in reducing the cost of leather products. Those who favor the retention of these agents state that many hides would never reach the market and that there would be more damaged ones than at present, with consequent disastrous results to the country-hide industry, because of the absence of local competitive buying. They maintain that without the traveling buyer the producer would be at the mercy of the unscrupulous and unrestrained consignment-hide buyer.

The logical agency, however, with which the small producer should deal when seeking to market his hides and skins direct, is the large hide dealer, who assembles the nondescript lots of hides from hundreds of small slaughterers and dealers and prepares and classifies them according to the demands of the tanners, to whom he offers them in carload lots.

Another serious factor in the country-hide situation is an evil reputation, frequently deserved at present, but which persists even in meritorious cases. Many farmers, ranchmen, and small butchers, who see only the value of the meat on the animals which they slaughter, treat the hides and skins indifferently and carelessly, and look upon them as waste products for which any price is so much clear gain. Then, too, some of the traders and producers often resort to unnecessary and questionable uses of salt, pickle, and other chemicals in order to prevent shrinkage, to add false weight, or to replace the weight lost through natural shrinkage. Applying water to green-salted hides just prior to their sale for the purpose of adding weight is an equally reprehensible practice.

These questionable and dishonest practices do not deceive experienced hide buyers and tanners, who demand liberal reductions in tare and in prices when purchasing hides thus treated. There does result, however, a national economic loss, since by this ill treatment the greatest usefulness of these hides and skins is destroyed. Such treatment serves only to invite penalties in the form of low prices, not only for those sold at the time, but also for future offerings, as dealers, brokers, and tanners, remembering the defective hides and skins and anticipating more, make their price arrangements as a matter of protection. Often these prices are inequitable, because the penalties generally are spread over all hides of the country description.

Because of the existence very generally of these inferior qualities, of the lack of careful selection and classification, and of the apparent inclination of many persons connected with the trade to magnify and to capitalize alleged defects, many of the country-hide producers feel that no amount of precaution and efficiency on their part would be rewarded by better prices. Though some of them realize that hides have values and that these values depend largely on carefulness and efficiency in skinning and curing, they often, because of the evil repute of country hides and skins as a class, fail to find a ready market at reasonable prices, even though the hides they offer have been handled properly.

When a producer is paid as much for hides and skins which have cuts, sores, fleshings, horns, dewclaws, tail bones, sinews, hair slips, salt stains, poor pattern and trim, dragged spots, brands, grubs, and other imperfections as for those which are comparatively perfect, he is paid a premium for inefficiency and has no incentive to improve his methods or to strive for greater conservation. This applies to a less extent when hides are sold on a graded basis with only light penalties for the results of carelessness.

No farmer would sell a fat steer for the price of an old cow. There is no more reason for selling perfect hides and imperfect ones at the same price, for the chances are that the price will be on the basis of the inferior ones.

The hitherto almost universal practice of selling country hides and skins at flat prices without regard to selections and grades based upon quality, weight, and condition has contributed in a large way to the present condition of country hides and skins, with the consequent tanner's aversion to them and the wide margin between the market prices of such hides and of packer hides. The practice of flat selling is not suited to modern methods of marketing and has been abandoned by all progressive producers and merchants in nearly every line of merchandise.

A long stride forward was made when the War Industries Board in 1918 issued orders requiring all hides and skins to be sold by classes and grades. The maximum results of this progressive measure, however, will be deferred until the various methods of grading have been revised, simplified, correlated, and faithfully applied to the trading in all sections of the country. There should be well-defined classes and grades, not only for packer, but also for country hides and skins. In fact, a single standard for all hides and skins by means of which they can be graded and sold on merit, regardless of origin, is desirable and deserves serious consideration. A standardized basis for trading should make it possible for the country producers to realize prices more nearly commensurate with the quality of their products. As a result, carelessness and much inefficiency should soon be overcome and a marked improvement in the merchantability and market prices of hides and skins of the country class should follow.

Why is there no organized speculation in hides?

## 123. LOOSE LEAF AUCTIONS IN THE TOBACCO TRADE

The largest tobacco growing district in the United States is Virginia, Maryland, North Carolina, South Carolina, Kentucky, and Tennessee, with substantial quantities also grown in the adjoining sections of neighboring states[1]. In Connecticut, Pennsylvania, Wisconsin, Ohio, and several other northern states large quantities of cigar leaf are grown. The trade in cigar leaf, however, is entirely distinct from the trade in southern leaf.

The bulk of the tobacco grown in Virginia, North Carolina, and South Carolina is known as light flue-cured leaf and is used largely in the manufacture of cigarettes. In the western part of Kentucky, Tennessee and some sections in Virginia, dark tobacco is grown in large quantities and is used for the manufacture of snuff, plug, twist, and fine cut chewing tobacco. This tobacco also is sold in large quantities for export.

The Burley tobacco district centers in eastern Kentucky. This leaf is used chiefly for the manufacture of smoking tobacco.

The quality of tobacco depends primarily upon soil and climatic conditions. There are numerous special characteristics of the tobacco grown in each locality.

In eastern Virginia, North Carolina and South Carolina for some time tobacco has been sold at public auctions by the so-called loose-leaf system. In the Burley district and in the dark tobacco districts of Kentucky and Tennessee the tobacco formerly was packed in hogsheads and generally shipped to Louisville and Cincinnati. At these cities were large warehouses, in which the tobacco was dryed and stored and sold either at auction or private sale after inspection by the representative of the tobacco manufacturer. The farmer frequently had received financial assistance from the warehouse company on condition that the tobacco should be consigned to the warehouse company for sale. Within the last ten years the shipment of tobacco in hogsheads to Louisville and Cincinnati has rapidly declined. In the Burley district and dark tobacco district as well as in Virginia the bulk of the tobacco is now sold by the loose-leaf system.

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[1] References on trade in tobacco:—M. Jacobstein, *The Tobacco Industry*. G. K. Holmes, "Systems of Marketing Farm Products," *U. S. Department of Agriculture, Report No. 98*. U. S. Commissioner of Corporations, *Report on the Tobacco Industry*. G. G. Huebner, *Agricultural Commerce*. Anne Youngman, "Tobacco Pools of Kentucky and Tennessee," *Journal of Political Economy*, 1910. *Tobacco World*. *Tobacco Leaf*.

After the crop is harvested it is hung on sticks and stored in the tobacco barn to cure. This curing process usually takes two months[1]. As soon as it is sufficiently cured, it is ready to be marketed. The farmer in selling by the loose-leaf system hauls a load of tobacco to the local market town where the tobacco is placed upon the floor of the auction room. Each individual lot is then sold at auction, usually to buyers of the tobacco manufacturing companies. As soon as it is sold, the tobacco is removed by the buyer and shipped to the manufacturing plant where it is dryed, stored, and put through the necessary processes to prepare it for manufacture. In some cities, such as Lexington, Kentucky, which is in the heart of the Burley district, there is more than one loose-leaf auction house. The farmer pays a small fee to the proprietor of the loose-leaf house for weighing and sale.

Why have the loose-leaf auctions supplanted the method previously used for selling tobacco in the State of Kentucky?

Why do the tobacco manufacturers adopt a policy of buying directly from farmers at the loose-leaf auctions?

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[1] Kentucky Agricultural Experiment Station, *Bulletin No. 202.*

## 124. INTERNATIONAL FUR EXCHANGE—AUCTIONS

In February, 1920, the two weeks' auction sales of raw furs at St. Louis amounted to $27,152,000, according to the newspaper reports. Following the St. Louis sale in February, 1920, also occurred the New York fur auctions at which pelts valued at $10,000,000 were offered. The large increase in the volume of sales at these American fur auctions is one of the noteworthy effects of the war.

An impetus to the sale of furs at public auction in the United States was given by the action of the United States government in 1913, in sending its entire catch of Pribilof Islands seal and blue and white fox skins to St. Louis for sale at the auction in December of that year. Previously these government furs had been sent to London to be auctioned.

Up to that time London had been the leading market in the world for raw furs. This is said to have been due in part to the conditions of the original Hudson Bay Company's grant which required that all the pelts obtained by this Company should be taken to London for sale[1]. On the continent of Europe there were also several important fur markets. Irbit, on the Siberian frontier, was the leading market for Siberian furs. The chief Russian fur companies were all represented at the annual Irbit fair. Many furs bought at Irbit were resold at the auctions in Leipzig and London. Leipzig is said to have been the most important market in the world for manufactured and dyed furs.

When war broke out in Europe in 1914, the fur trade was immediately interrupted. Large quantities of furs that previously had been sent to Irbit and Nijni-Novogorod, Leipzig, and London were sent to St. Louis. The sales in St. Louis in February, 1920, were the largest that had been held up to that time. The sales in March, 1916, in St. Louis were about $2,000,000. In February, 1920, as stated above, they amounted to over

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[1] Henry A. Beers, Jr., "Advertising to Keep the World's Central Fur Exchange Within Our Shores," *Printers' Ink*, November 2, 1916, pp. 57–62.

$27,000,000. At this 1920 auction it was stated that every known variety of fur from every fur-producing country in the world was represented. America is said to lead the world in the production of high grade pelts, but large quantities also were sent from foreign countries. The sales on February 10th, for example, amounting to $1,700,000, included the following:—500,000 Australian opossum, 100,000 Australian ring-tail opossum, 46,500 wallaby, 67,000 wombats, 600 kangaroos, 100,000 fitch, 70,000 kolinsky, 130,000 American ermine, 6,000 gray ermine, 50,000 brown ermine.

The sales on February 11th, amounting to $2,000,000, included 543,000 white hares, 700,000 Australian rabbits, 200,000 New Zealand rabbits, 300,000 Dutch rabbits. Some of these rabbit furs were sold to furriers, but the bulk were sold to hatters for the manufacture of felt hats. The sales on this date also included 380,000 American opossum, 20,000 house cats, and smaller lots of hair seal, leopard, mountain lion, otter, wolverine, gray fox, South American fox, reindeer, guanaco, bear, and polar bear.

At the sales on other days numerous other varieties of furs were sold. A lot of 9,100 United States government seal skins, for example, was sold for $1,282,000.

The sales at St. Louis, held three times a year, are at public auction on the International Fur Exchange, a private institution.[1] The catalogues of the sales are prepared in advance, and the furs themselves are available for inspection before the bidding commences. Sales are made at these auctions in the main directly to fur manufacturers and others who use fur as raw material. Numerous buyers from foreign countries attend these auctions.

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[1] In 1917 a similar system of fur auctions were started in New York. The first auction was held in January, 1917. The sales at this first auction were about $1,500,000. At the sale that opened February 16, 1920, it is reported that 2,500,000 pelts valued at $10,000,000 were offered. There were over 80 varieties of furs. The New York and St. Louis auctions are competitive. The New York auctions, furthermore, were nearly as large as the contemporary auctions in London, and the sales at the St. Louis auctions were nearly twice as large as those in London in February, 1920.

Furs are shipped on consignment by raw fur dealers to Funsten Brothers & Company, who operate the International Fur Exchange. Through market letters, mail, telegraph, and cable, shippers are advised by this company regarding market conditions[1]. The furs, upon receipt at St. Louis, are graded and stored for the auction. A fee of 5% of the selling price is the compensation received by the company from the shipper. One per cent discount is allowed to the buyer and this is also deducted from the price remitted to the shipper. The company makes an advance of money, when desired, to any shipper on furs shipped; the interest on these advances is at the rate of 6% a year. The amount realized from the sale of each lot of skins at the auction is remitted, less the charges, immediately after the sale; that is, within three to four weeks, the period depending upon the volume of business to be handled and accounted for.

Buyers attending the auction are privileged to examine the furs before the sale commences. Prior to the auction the furs are graded by experts and assorted into lots, designated in the catalogue. The prospective buyer, while examining each lot, makes notes in a copy of the catalogue for reference when bidding. In the case of an article like Alaska sealskins, each entire lot is shown to the buyers for examination. With an article like Russian squirrel, however, where a single lot may number 4,000 skins, the buyers are shown a sample of about 50 skins, but the entire lot may be inspected, if desired. One of the most important parts of the business of Funsten Bros. & Company is the grading and drawing of samples of the different lots; a sample of 50 skins must truly represent a lot of 4,000. During the auction the skins are sold at the rate of about 100 lots an hour.

The buyer is allowed four months in which to pay for and take delivery of furs. He must pay 25% on a stipulated date, about one month after the close of the sale, known as Prompt Day, for which he is allowed

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[1] The following information was furnished by Funsten Brothers and Company.

1% cash discount. The buyer also pays a small fee for each purchase, and ½% brokerage. The fee, known as "lot money," is 50 cents for each lot of seals and 25 cents for each lot of other furs.

What considerations might induce a shipper of high grade fox skins in Newfoundland to send his furs to St. Louis?

## 125. CARRYING STOCKS IN THE STEEL TRADE

An editorial was published in the *Iron Age*, December 31, 1914, on the "Steadying Effects of Carrying Stocks[1]." The following statement was made:

> It is a commonly accepted theory in the study of markets for commodities that the carrying of stocks tends to steady prices; that commodities that can be carried in stock are as a rule subject to less violent fluctuations than those that must pass directly from production to consumption.

It is then pointed out that the experience of the steel trade indicates a limitation upon this theory. The opinion is expressed that for this steadying effect to be realized stocks must be carried by sellers and not by buyers.

> The carrying of stocks of steel by jobbers and consumers, or rather the ability to carry them or not to carry them, is one of the important influences that cause the wide fluctuations to which steel prices are notoriously subject.

The significance of this statement is then pointed out for different classes of products. It is stated that rails are not stocked and that plates and shapes are stocked to only a small percentage of the total production. Bars, pipe, sheets, wire, hoops, etc., are stocked largely by jobbers, retailers, and manufacturing consumers. This last class is numerous, ranging from the large manufacturers down to the country blacksmith. For this last group of products, when the market is rising, it is stated that buyers purchase heavily and that when the market is falling they stay out. Thus, they alternately increase and decrease their stocks.

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[1] *Iron Age*, December 31, 1914, p. 1498. Other references on the iron and steel industry: J. R. Smith, *Story of Iron and Steel*. A. Berglund, United States Steel Corporation, *Columbia Studies*, Vol. XXVII, No. 2, 1909. U. S. Commissioner of Corporations, *Report on the Steel Industry*. *Iron Trade Review*. *Steel and Metal Digest*.

Sheets are not stocked by producers but by buyers, and show wide fluctuations in prices. Steel pipe is stocked by producers as well as by buyers and the fluctuations are comparatively small. Wire nails are stocked freely by producers.

Why is it that the steel manufacturers as a rule do not carry stocks of any consequence in the case of rails, plates, shapes and sheets? Are the conclusions sound that are stated regarding the relation of stocks to prices?

## 126. PURCHASING COPPER

A group of business men are contemplating the establishment of a metal manufacturing plant in Connecticut. Their organization and their plans for financing the undertaking are dependent in part upon conditions and methods of buying their raw materials. One of their chief raw materials will be crude copper[1].

From whom can they purchase copper? Upon what terms?

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[1] General references on copper: *Engineering and Mining Journal*, especially May 11, 1912. W. H. Weed, *The Mine's Handbook. Mineral Industries. Steel and Metal Digest.* U. S. Geological Survey, *Mineral Resources.*

## 127. LEATHER COMPANY—BRANCH SALES OFFICES

A group of men are planning to acquire control of and amalgamate several medium-size companies engaged in tanning upper leather[1]. The new company will have a capitalization of $15,000,000.

The tanneries that are to be included in this amalgamation are located in Massachusetts and at points in the Middle West. Heretofore some of these tanneries have sold direct to wholesale consumers; others have sold mainly to leather merchants.

The new company plans to establish a sales office in Boston. Will it be advantageous for the company to establish branch sales offices? If so, where?

## 128. UNITED SHOE MACHINERY COMPANY—LEASE SYSTEM

The United Shoe Machinery Company manufactures a large part of the machinery used for attaching the soles to their uppers and for the incidental and finishing operations connected therewith in the manufacture of shoes in the United States and in foreign countries. In addition to shoe machinery, this company also sells large quantities of supplies for use in shoe manufacturing.

The United Shoe Machinery Company produces several types of equipment for shoe factories[2]. These include machines for the manufacture of shoes by the McKay system, turn shoes, metal fastened shoes, and shoes made by the Goodyear Welt Process. The Goodyear Welt shoes are the best quality and the

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[1] A. Heath Outhank, *The Tanning Industry.*

[2] For information on the technique of shoe manufacturing, see F. J. Allen, *The Shoe Industry;* also the *Shoe and Leather Lexicon* published by the Boot and Shoe Recorder Publishing Company.

United Shoe Machinery Company specializes primarily upon its Goodyear machines. The United Shoe Machinery Company manufactures about 300 different machines.

The existing machines are subject to frequent improvement and new machines are invented. The company maintains an experimental department with inventors, draughtsmen, and an experimental machine shop. Several hundred people are employed in this experimental department solely for the improvement and development of machines. As an example of the attention given to inventions, in the development of the pulling-over machine, which pulls the upper leather over the last, $1,000,000 was spent in experimental work before the machine was commercially successful. This pulling-over machine has 1,182 parts in the operative head; 862 of these parts move in each operation. This machine like many of the others has a very delicate adjustment. The Goodyear Stitcher has 1,104 parts in the operative head, 615 of which move with each operation.

There are from 100 to 160 operations in manufacturing a shoe. These are successive operations. The following statement by the United Shoe Machinery Company, regarding the development of shoe machinery, was quoted by Judge Putnam in his Opinion in the United Shoe Machinery Case before the District Court in Boston, March 18, 1915[1]:—

> This particular business of shoe machinery started about 1860 with the McKay sewing machine. There are men now alive who saw the first McKay machine, introduced about 1860. At the time the machine was invented by Lyman Blake there was not in a shoe factory a single machine outside of the sewing machine for stitching the uppers except a machine for making strips of outsoles and a knife organized into a frame which roughly shaped the outsole. There were few crude pegging machines in use. There was not another machine, and shoes were made absolutely by hand. The business was insignificant as a whole even, and the individual units were most insignificant. McKay had $140,000 when

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[1] District Court of the United States, District of Massachusetts, No. 301, *United States of America Against United Shoe Machinery Company*, Opinion of the Court, March 18, 1915, pp. 14–18.

he bought it. He thought that it was a perfect machine, but his $140,000 was gone before he was able to sew a shoe on it commercially. And that is the history of all these machines. They have been most expensive in their development. One unexpected failure after another has broken the hearts of the inventors and promoters before success was attained.

Then came the Civil War, and the demand for shoes for the soldiers was such that the McKay machine was able to get a start which otherwise it might not have gotten.

At the moment when McKay started to put this machine out, Elias Merwin and McKay together invented for this business the royalty system, and that system has prevailed throughout the shoe machinery business from the beginning. It was a system of leasing machines, adopted in order that the shoe manufacturers might be induced readily to take the machines. Because in the case of each new machine it was all an experiment, the shoe manufacturers did not dare to take such machines and invest their capital in them. They did not have the capital to invest. This policy was satisfactory to the last degree, and from McKay's time to the present day the royalty and lease system has been the prevailing and characteristic method of the shoe machinery business, so far as the great variety of elaborate and refined machines which have followed the first McKay machine are concerned. One thing which the Government asks in the case is that the leasing system which has prevailed from the start in this industry should be destroyed. If the court should declare illegal, as the United States ask it to do, the protective clauses in our leases which we have put there to make the system safe and practicable, the leasing system would have to go.

There are two important aspects, at least, in which this shoe machinery business is unique. One is that in every single step in this business up to the point where today we are building 350 machines, the machines have been patented machines, always patented and likely to be patented for an indefinite time in the future,—because this art is not yet exhausted. Thirty-five millions of dollars of the property of the Shoe Machinery Company is in the hands of these shoe manufacturers. It finances them to that extent. It keeps those machines in repair, so that the shoe manufacturers have no question of maintenance; no cost of maintenance to deal with. It sees that information calculated to make the operation of the machinery more effective is collected and disseminated throughout the factories. The shoe manufacturers who deal with our company do not have to be on the watch to get the best possible machines. They know that the defendant will supply them with the best.

They know that their machinery is the best in the world, and that, if better is devised, they will surely have it. There is nothing for them to look after except the question of labor, the purchase of material, the design of their goods and selling them. It is with this business, not with any other, that the court has to determine whether what these respondents have done, what contracts they have made, have been in the normal, orderly, natural line of development.

McKay had his lasting machine; Thompson had his lasting machine; soon Copeland came along with his lasting machine; all patented; and the impression right straight through of those working in this art who were most intelligible was this, that you might do many things with machinery in shoe manufacturing, but you never could last by machinery, because you are dealing with leather, which is a most difficult thing to deal with. It is so expensive that every scrap should be saved and none injured. No two adjacent centimeters of leather are the same in character and condition. In flexibility and capacity for stretching no two spots are alike; the surface character constantly varies; and yet you must make a finished shoe without waste or loss and as perfect as possible, and the two shoes of every pair must be perfectly matched. It was the general belief that the lasting machine was an idle dream.

But the lasting machine has come; and so has every other machine that was required in this industry. The 150 processes that are employed in making shoes are all done today by machinery. It is only a short time ago that there was some talk about cutting out the uppers; men said that you never could do that. Human intelligence seemed absolutely essential for the work. Now we have a machine that doubles the efficiency of the human operator in cutting or dying out the uppers, and does it much better. This is the clicking machine.

Moreover, the No. 5 laster of today is of such a character that the Ideal and the Chase of 1899 are practically obsolete machines. The welter and stitcher of today are enormously more useful, efficient, and economical than those of 1899, as the record shows. The rough rounder has been perfected; and so it goes right straight through with every machine in use in 1899, as to all of which there have been a long line of patented improvements, one succeeding another at frequent intervals, every one of which does something that previously was done by hand, or was not done at all. So that today you have a completely developed organization of machinery adapted to the manufacture, under the most favorable conditions, of the shoes that the public require. If the requirements change, the machinery is at once changed to meet those new requirements, and there has been a continuous and large gain in economy and efficiency.

We talk chiefly about the welt shoe, because that is the most important shoe of all and the one to which our business most largely relates. There were only 17,000,000 of them made in 1898, or less than 10% of all shoes made. In 1910 there were over 86,000,000 pairs, and the proportion of welt shoes to all shoes made has been steadily increasing. And why this increase? Because we have given to the shoe manufacturers between 1899 and the present time, better machines and radically new machines, which enabled them to make those shoes successfully and at a low cost. We are solely responsible for this entire development. The whole credit of it belongs to us.

Now it is not unreasonable to look at this complex and complete shoe machinery system in this way. Take a screw machine. There is an organization on one frame which feeds the bar, cuts off the right length, puts in the screw thread, makes the point, makes the head, and cuts the slot in the head, thus making a complete screw. The manufacture of a shoe in a modern factory is practically a unitary operation, like the making of a screw; every one of the many steps being coordinated to the others, as if all were taken in a single machine. Everything is aimed at one product, and every single machine is definitely related to the machines that follow it, and to the machines that are back of it. These machines that we have talked about as being classified into "departments," cover sometimes machines of one department "tied" to those of another; yet there is no consecutive relation of one department to another in the order of use of the machines in making a shoe, but you start in with one machine from department "A," and take the next from department "D," and then one from "C," and then one from "E," the result being that, when you get through, they have all been interwoven, and the sequence worked out, not department by department, but one machine after another, in any order as far as the departments are concerned. That is, the whole is a continuous process, aimed at one unitary result; and each of the machines, whatever the distribution among the different departments, is organized to succeed the prior machine efficiently, and to prepare the shoe for the next machine. Any one of the machines may spoil a shoe; and the result is that one of the great problems of this art has been to organize each machine, so that not only will it do its work without injury to the shoe, but that there will be no difficulty when you come to the subsequent machines. The work of each machine must be done so that the next machine will work with the required accuracy.

Of the 300 machines manufactured by the United Shoe Machinery Company, about 200 are sold outright, or occasionally leased at the option of the user. These machines that are sold outright do not require expert attention in upkeep.

About 100 machines are not sold. Seven of these machines that are not sold are leased to shoe manufacturers on condition that they pay a royalty ranging from less than one cent a pair to six cents a pair. The highest royalty paid on a pair of shoes in the manufacture of which United Shoe Machinery Company machines are used is about six cents. The two largest royalty paying machines are the Goodyear Welter and Stitcher which are necessary for the manufacture of Goodyear Welt shoes. These machines are leased together. The company does not lease them separately.

The supplementary machines, such as the channeling machine and numerous others, are furnished without charge to shoe manufacturers who use the royalty-paying machines. These machines that are furnished without charge are known as auxiliary machines. They cannot be obtained unless the Goodyear Welter and Stitcher are used. These auxiliary machines enable faster and better production as well as a saving in cost to the shoe manufacturer.

The leases of the United Shoe Machinery Company ordinarily are for seventeen years. They require that the shoe manufacturer use the machines as nearly to capacity as possible. The leases also provide that the United Shoe Machinery Company has the right to inspect the machines at any time and replace any machine at the United Shoe Machinery Company's option without expense to the shoe manufacturer. They require further that repair parts shall be purchased only from the United Shoe Machinery Company. The company maintains a service department in each of the shoe manufacturing districts in the United States, so that any adjustment of the machines or repair work can be taken care of immediately. The United Shoe Machinery Company oftentimes shifts machines from one factory where they are not required to another factory which needs additional equipment.

Machines which are used for metal fastenings, heelers, and eyelet machines are furnished to shoe manufacturers on condition that the supplies for these machines be purchased only from the United Shoe Machinery Company. The price of the supplies includes the royalty. The metal fastenings include screws, wire, and so on. The machines that insert these metal fastenings are complicated, and it is necessary that the screw wire, for example, be of exactly the right size, thread, and of the right malleability in order that the machine may operate properly. Similarly with the eyelet machine. The eyelets are fed through a raceway, and the delicate adjustment of the machine requires accuracy in the materials.

The amount of materials used by these metal fastening machines, heelers, and eyelet machines measures the amount of work done. The number of slugs put in the heel of a shoe, for example, varies according to the kind of shoe and the style adopted by the manufacturer. There is no charge for this group of machines except for what is included in the price of the materials. All other materials sold by the United Shoe Machinery Company are sold on the ordinary commercial basis in competition with other supply manufacturers.

From the standpoint of the United Shoe Machinery Company, what are the merits of this system of marketing? What are the merits of the system from the standpoint of a shoe manufacturer?

## 129. MANCHESTER TEXTILE MACHINERY COMPANY—ACCEPTING PAYMENT IN STOCK

Prior to the war the Manchester Textile Machinery Company, which manufactures spinning and weaving machinery on a large scale for cotton mills, had accepted capital stock in newly organized mill companies in the Southern states in part payment for machinery. The machinery was sold outright, not leased. During 1919, the company received orders for machinery, to be paid for in cash upon delivery, which disposed of its entire output for more than two years in advance. When demand again slackens, the company probably will have occasion to consider whether or not it will resume its previous policy of accepting capital stock in new mills in part payment for its sales.

What factors should be taken into account in deciding this question of policy?

## 130. EAGLE MOTOR COMPANY—TRUCK SALES

The Eagle Motor Company, a well-established automobile company, which has been engaged in the manufacture of medium-price pleasure cars, has decided to add small and medium-size trucks to its output. The pleasure cars have been sold to dealers through exclusive distributors located in the larger cities.

How will the sales problems of the truck business differ from those of the pleasure car trade?

# PART VI

## SALES MANAGEMENT[1]

THE problems in this section illustrate the relations of the sales department to other departments in a business, relations to customers, market analysis, the determination of the selling points of the product, sales organization, selection and training of salesmen, management of salesforce, and policies in regard to guarantee, cancellations, and return goods.

### 131. White Star Farm Machinery Company—Production Schedule

The White Star Farm Machinery Company manufactures farm implements on a large scale. The company has found it necessary to plan its schedule of manufacture twelve to fifteen months in advance of sale. The manufacturing period is long. The selling season each year is short. The company sells its products under its own brands and distributes directly to retailers through its own wholesale branches.

How is this company to determine the quantity of implements to be manufactured each year?

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[1] General references on Sales Management:—A. W. Shaw, *An Approach to Business Problems.* Melvin T. Copeland, *Business Statistics.* P. T. Cherington, *Advertising as a Business Force.* A. W. Shaw Company, *The Knack of Selling; Organizing for Increased Sales; Handling Salesmen at Lower Cost; Graphical and Statistical Sales Helps; Library of Business Practice.* Butler, DeBower and Jones, *Marketing Methods.* A. W. Douglas, *Traveling Salesmanship.* E. C. Simmons "The 'Big Things' in Selling," *System*, February, 1920, pp. 257-260.

## 132. Oriole Company—Special Order Department

The Oriole Company of Chicago manufactures clothing sold under its own nationally advertised brand. All its product is manufactured in its own factory. The Oriole Company sells to retailers who have exclusive agencies. It has customers in all parts of the United States.

The Oriole Company comes into competition with tailors-to-the-trade, the so-called wholesale tailors who make clothing to measure in their plants in New York and Chicago on orders and specifications sent to them by their agents. These wholesale tailors furnish their agents each season with well-prepared style books and with samples of the fabrics that are carried in stock.

The Oriole Company is considering the establishment of a "special order" department in which orders for individual suits and overcoats "to measure" may be filled. If the department is established, the orders will be received from the retailers who now carry the ready-to-wear product of the company. It is not planned to establish any agencies except in the stores that carry the ready-to-wear product of the Oriole Company.

What would be the advantages and disadvantages to the Oriole Company of establishing this "special order" department[1]? If it were to be established, should it be featured prominently in the advertising of the Oriole Company and of its retail agents?

A. D. Joyce, "Training Men to Handle a Diversity of Products," *Printers' Ink*, February 12, 1920, pp. 3-12. W. D. Scott, "Testing Prospective Salesmen," *Printers' Ink*, February 17, 1916, pp. 61-66. R. E. Hills, "The Salesman Problem," *National Wholesale Grocers' Bulletin*, April 2, 1917. Leon Allen, "Facts You Must Have When Routing Salesmen."

[1] On the interrelation of departments, see A. W. Shaw, *An Approach to Business Problems*.

### 133. Dorway Manufacturing Company—Special Orders

The Dorway Manufacturing Company produces builders' hardware of medium and high grade. Its product is sold to wholesalers and also direct to large retailers who take contracts for the builders' hardware required for big construction jobs. The Dorway Company carries several thousand items in stock. Frequently there is a demand for special styles and sizes of hardware for individual jobs which cannot be filled from the stock patterns.

What must the Dorway Company consider in deciding whether or not to cater to this special order trade?

### 134. Star Paper Company—Stock to be Carried

The Star Paper Company, located in Kalamazoo, Michigan, has a paper mill with six machines. The company manufactures about one thousand grades, weights, and sizes of paper. The average size order is ten to twenty tons. On special orders the minimum order is three tons. About 50% of the orders are stock orders, and about 50% special orders. The company normally carries about 3,000 tons in stock. The output of the mill is sold to jobbers.

The Star Paper Company has acquired the ownership of a second mill with five paper machines. When the second mill was acquired, the sales manager of the Star Paper Company advocated a policy of carrying

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*Printers' Ink*, November 27, 1919, pp. 162–170. William O'Neil, "Straight Salary for Salesmen," *Printers' Ink*, April 8, 1920, pp. 119–128. *System. Printers' Ink. Advertising and Selling. Sales Management. Marketing. The Sales Manager.*

5,000 tons in stock for the two mills. If this were to be done, the advantages of the combination of the two mills would be largely eliminated.

What plan should be adopted to determine the amount of stock to be carried?

## 135. EXETER WAGON COMPANY—STANDARDIZATION

The following schedule for manufacturers of farm wagons was issued by the Conservation Division of the War Industries Board July 18, 1918:

1. CLASS "A" FARM WAGONS AND GEARS

(a) *Capacity:* The manufacture of farm wagons to be restricted to four capacities, using cast skeins as follows:

| | | |
|---|---|---|
| Light | 1500 lbs. capacity, | skein size 2½″ |
| Medium | 3000 lbs. capacity, | skein size 2⅞″ |
| Standard | 4500 lbs. capacity, | skein size 3¼″ |
| Heavy | 6000 lbs. capacity, | skein size 3½″ |

(b) *Stenciling:* All gears to be stenciled as follows, skein sizes not to appear.

| | |
|---|---|
| Light | 1500 lbs. capacity |
| Medium | 3000 lbs. capacity |
| Standard | 4500 lbs. capacity |
| Heavy | 6000 lbs. capacity |

(c) *Track:* The manufacture of wagons to be restricted to one standard track of 56″ measured from center to center of tire on ground.

(d) *Width between Stakes:* Wagons to be made of one width, viz., 38″ between stakes.

(e) *Stakes:* Where stationary stakes are used, they are to be furnished in two heights only, viz., 8″ or 13″ over top of iron, any manufacturer to have the privilege of using in place of the stationary stake an adjustable or removable stake, but not both types.

(f) *Reach:* Reach construction to be restricted to the rectangular type only.

(g) *Rear Gear:* Only one gear with but one height of bolster to be made for each capacity.
(h) *Front Gear:* Front gear to be made in drop, slip or coach tongue type.
(i) *Wagon Boxes.* Wagon boxes to be made in one width only, viz., 38″ between bolster stakes and without foot-boards.[1]

The Exeter Wagon Company, manufacturers of farm wagons, located in a large city on the Ohio River, with a market in neighboring states, reduced the number of front and rear gears in its product from 254 to 16 in accordance with this schedule. After the close of the war, a local demand for discarded types of farm wagons still persisted in parts of the company's sales territory. The large implement manufacturers had announced that they had decided to adhere permanently to this schedule. There was a widespread sentiment among manufacturers that the schedule should be universally followed.

What attitude should the Exeter Wagon Company take toward the continued observance of this schedule?

## 136. SAGINAW PAINT COMPANY—VARIETY OF PRODUCTS

The following schedule for conservation was issued by the Commercial Economy Board of the Council of National Defense January 21, 1918:

To the Paint and Varnish Manufacturers of the United States:

The Commercial Economy Board has now completed its inquiry regarding practical economies in the Paint and Varnish industry in order to conserve labor and materials and to lessen the amount of capital tied up in manufacturers' and retailers' stocks. This inquiry has covered the requirements of the government as well as the interests of all the branches of the industry Inasmuch as large quantities of flaxseed for linseed oil, and tin for containers are brought from abroad in ships, it is especially necessary to husband our resources of these materials in order to lighten the demands upon shipping.

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[1] Similar schedules were issued at the same time for Valley Wagons and Gears, Mountain Wagons and Gears, One-Horse Wagons and Gears, and Farm Truck Gears.

The Board therefore requests paint and varnish manufacturers to reduce their lines for the retail trade in accordance with the following recommendation to take effect July 1, 1918:

| Paints, Enamels, Stains | Maximum No. of Shades or Colors | Varnishes | Maximum No. of Grades |
|---|---|---|---|
| House Paint | 32 | Penetrating or Spirit Stains | 10 |
| Flat Paint | 16 | Oil Colors | 30 |
| Enamels | 8 | Architectural (Interior & Exterior) | 10 |
| Floor Paint | 8 | Auto and Carriage Varnishes and Japans | 12 |
| Porch Paint | 6 | Marine Varnishes | 4 |
| Roof and Barn Paint | 2 | Miscellaneous Varnishes | 28 |
| Shingle Stains | 12 | | |
| Carriage Paint | 8 | | |
| Oil Stains | 8 | | |
| Varnish Stains | 8 | | |

(All of the above are exclusive of black or white, except oil colors Under the heading Oil Colors in recommending a maximum number of 30, it is understood that blacks are included; but shades such as Light, Medium or Dark in the various colors are not included.)

(Under the last heading it is understood that all varnishes are included that are not specifically mentioned in the first three classes, and in addition, japans, driers, asphaltums, etc.)

Manufacturers are further requested to eliminate the following sizes of cans:

Half-gallon cans throughout the entire line of paints and varnishes.

All cans smaller than half-pints, throughout the entire line of paints and varnishes.

Pint cans in house paints, flat paints, floor paints, porch paints, enamels.

All cans smaller than gallons in barn and roof paint and shingle stain.

All cans smaller than pints in all clear varnishes and varnish removers.

All two and three-pound cans in the entire line.

All users of tin containers can do much to relieve the situation and clear the future by substitution of other packages where practicable, and by not overbuying considerably in advance of actual use.

Manufacturers are urged to utilize existing stocks of color-cards, price lists, etc., even though some of these may show colors, grades or sizes of cans that will be dropped as a result of these recommendations. Such color-cards and price lists can be stamped to indicate which shades or colors, grades and sizes have been eliminated in accordance with the request of the Commercial Economy Board and thereby avoid wasting any materials already manufactured.

Retailers are urged not to return to manufacturers colors, grades, or sizes of cans which may be dropped as a result of these recommendations.

Commercial Economy Board,
Council of National Defense.

72-1000

This schedule was carried out during the war and was continued by the trade by common consent for an indefinite period after the signing of the armistice. The only exception was the reintroduction of the half-gallon size of cans by one of the largest manufacturers. The action of that company in offering the half-gallon size to its customers was followed by the rest of the trade.

The Saginaw Paint Company, prior to 1918, had manufactured 48 shades of house paint and a similarly wide variety of other paints. What must this company consider in determining whether or not to continue to follow this restricted schedule in the future?

## 137. SPARTAN ELECTRIC COMPANY—WATER TURBINES

The Essex Manufacturing Company makes water turbines and all the parts pertaining thereto. It also manufactures electrical machinery and is therefore able to bid on complete hydro-electric installations. There are two other large electrical companies which do not make water turbines. One of these is the Spartan Electric Company.

Should the Spartan Electric Company enter into an agreement with some water turbine manufacturer to sell the latter's output of water turbines? Should the Spartan Electric Company act as primary contractor, taking full responsibility for all machinery, or should it plan to make bids on a coordinate basis with the turbine manufacturer whereby the Spartan Electric Company would accept responsibility only for the electrical apparatus.

## 138. DAKOTA COMPANY—PLANS OF DISTRIBUTION

The Dakota Company, manufacturing a full line of agricultural machinery, has decided to add farm tractors to its products. The company has wholesale branches located at strategic points for the distribution of its output. Its products are branded and retail dealers have been granted local, exclusive agencies for the machines already manufactured.

Should the Dakota Company distribute the tractors through its present retail dealers, or through automobile dealers? What must be taken into account in reaching a decision?

## 139. Elm Wholesale Grocery Company—Credit

The Elm Wholesale Grocery Company, located in St. Louis, received an order from one of its salesmen for merchandise amounting to $250. The order was given to the salesman by J. G. Straw, a retail grocer in a town of ten thousand population in southern Illinois. This was the first order that had been received from Mr. Straw.

The following net worth statement was submitted by Mr. Straw[1]:

FINANCIAL STATEMENT
Year Ending January 1, 1919.

| *Assets* | | *Liabilities* | |
|---|---|---|---|
| Cash on hand | $ 723.78 | Accounts Payable | $ 2,204.43 |
| Accounts Receivable | 6,603.05 | Bills Payable | 20,270.43 |
| Merchandise Inventory | 15,005.34 | Balance | 1,136.71 |
| Equipment Inventory | 1,279.40 | | |
| | $23,611.57 | | $23,611.57 |

The salesman also found that Mr. Straw's annual sales are about $79,000; that he is taking somewhat less than one-half of his cash discounts; that he is buying from about ten wholesale grocers with occasional, scattered purchases from others; that half of his business is credit; that his stock-turn is 4.5 times a year, his gross profit 18%, and his total expense 15%. He does not charge himself with merchandise taken from the store for family use.

The town in which Mr. Straw's store is located is in a prosperous district, and Mr. Straw has a high standing among the merchants in the town. The Elm Company heretofore has not succeeded in selling any substantial quantity of merchandise in this town. It desires to secure a larger share of the business there.

Should this order be accepted?

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[1] References on credit: R. P. Ettinger and D. E. Golieb, *Credits and Collections*. J. E. Hagerty, *Mercantile Credit*. E. H. Gardner, *New*

## 140. Shenandoah Paper Company—Relations to Jobbers

The Shenandoah Paper Company, with a plant located in New York, manufactures coated papers. These coated papers are similar to the products of numerous other paper mills, although of slightly better quality than the products of most of its competitors. The company has a small mill and is not equipped to operate as economically as the big mills on large orders. The Shenandoah Paper Company therefore specializes on small runs and matched orders because the scale of operation is sufficiently small to permit careful supervision.

The Shenandoah Paper Company, like most of its competitors, has sold its product through paper jobbers by whom the product in turn is sold to job printers. Although the company's product is being sold under its own brand, nevertheless the company believes that in many instances the jobbers are not giving its products the attention it deserves.

Should the Shenandoah Paper Company establish sales branches? If so, where?

## 141. Manhattan Paint Company—New Retail Outlets

The Manhattan Paint Company produces a full line of paints and varnishes. The company has national distribution through hardware stores. Its products are well advertised.

One of the directors of the company has proposed that the present marketing policy should be modified

*Collection Methods.* W. A. Prendergast, *Credit and Its Uses.* A. W. Shaw Company, *Credits, Collections and Finance.* Ronald Press, *Mercantile Credits.* National Association of Credit Men, *Bulletin.* National Association of Credit Men, *The Credit Monthly.*

and that the company should seek to sell its products to retail drug stores as well as to retail hardware stores.

How would such a change in policy probably affect the production, sales, and advertising departments of the Manhattan Paint Company?

## 142. PONTIAC MILLING COMPANY—ELK WHOLESALE GROCERY COMPANY

The Pontiac Milling Company of Duluth has a capacity of 6,300 barrels of flour daily. This is a medium-sized plant. The company sells the flour that it manufactures entirely to wholesale grocers. A portion of the product is sold under the Pontiac brand and the remainder under wholesalers' private brands. The market of this company is almost exclusively in the Middle West.

Among the customers of the Pontiac Milling Company is the Elk Wholesale Grocery Company of St. Paul. This wholesale grocery company has been purchasing about 18,000 barrels of flour a year from the Pontiac Milling Company.

In April, 1920, the Pontiac Milling Company received the following letter and statement from the Elk Wholesale Grocery Company, offering the Pontiac Milling Company an opportunity to buy preferred stock in the wholesale grocery company. The Pontiac Milling Company is a profitable business, having paid regularly 8% dividends for several years and at the same time accumulating a surplus. It is a close corporation. The company can purchase one hundred shares of the Elk Wholesale Grocery Company's preferred stock without seriously depleting its working capital.

What reply should be given to this letter from the Elk Wholesale Grocery Company?

ELK WHOLESALE GROCERY COMPANY
St. Paul, Minnesota.

April 2, 1920.

Pontiac Milling Company,
Duluth, Minnesota.

Gentlemen:

Incident to the unusual sales increase of this business during the years 1918 and 1919, when an addition in volume amounting to $2,227,000 was added thereto, we have gradually come to the requirement of added capital, which we propose to obtain from the sale of an issue of One Million Dollars 7% Guaranteed Cumulative Preferred Stock.

There are two reasons why we have set aside a part of this issue to be taken by our manufacturing friends. First, because of the unusual security and fair earning upon the stock, and second, because of the high-grade service in distribution which this institution at all times has afforded legitimate manufacturers interested in the trade affairs of this territory.

Assuring you that the future administration of our business will be conducted in proper respect to any material consideration offered, I beg to call your respectful attention to the enclosed data.

Very truly yours,
(signed) William Parker,
President.

## CONTRACT OF PURCHASE

Authorized Capital
$2,000,000.00

Par Value
Per Share $100.00

ELK WHOLESALE GROCERY COMPANY
St. Paul, Minnesota

I hereby purchase............shares of "Series A Preferred Capital Stock" of the ELK WHOLESALE GROCERY COMPANY OF ST. PAUL, MINNESOTA,
and hereby pay therefor the sum of $100.00 per share in cash.

As soon as this subscription is accepted by the Company a Certificate thereon is to be issued to me of the date of this subscription showing that said stock is fully paid and non-assessable, with interest accruing at the rate of 7 per cent. from above date.

I hereby for my heirs, executors and assigns, irrevocably appoint the president of the Elk Wholesale Grocery Company as my agent and attorney in fact to vote all stock issued to me under this subscription in favor of renewing the present corporate existence of the Company as provided for by law upon the expiration of its charter.

In case I desire to sell at any time all or any part of my stock, I agree to notify the Corporation of such intention and give it the opportunity to purchase same.

This contract and agreement is not binding upon the Corporation until accepted by it by written notice to the purchaser and no conditions other than those printed herein shall be binding on the Company.

SIGNED.............................
ADDRESS.........................
DATE...............................

St. Paul, Minn., March 27th, 1920.

*TO THE PUBLIC:*

In connection with our offer of $1,000,000.00, 7% Cumulative Series A Preferred Stock of this company, I take pleasure in giving you the following information:

*THE PREFERRED STOCK*

The Preferred Stock is preferred as to assets and dividends; non-assessable; dividends are cumulative and payable semi-annually, March 15th and September 15th. Retireable at 105. Par Value $100.00 per share.

This institution was founded in 1885, 35 years ago. The present executive officers and management have been in charge during the past 25 years, and are responsible for the policy which has developed the business to its present large proportions.

The Company conducts a Wholesale Grocery, Candy, Coffee and Notion business, including a full grocery line, candy factory, coffee roasting plant, and manufactures and packs its own Pancake Flours, Spices, Extracts, Jellies, Jams, Preserves, etc.

The Elk Wholesale Grocery Company is one of the largest wholesale grocers in the west. Its plant consists of two warehouses, one of six stories and basement; the other of eight stories and basement; the same totaling 252,000 square feet of floor space. The two buildings are adjacent, the alley between them being bridged at the 2nd, 3rd, 4th, 5th and 6th floors, which makes the entire plant compact and facilitates quick and economical handling of merchandise. The location of this property is one of the choicest in St. Paul for wholesale purposes, with ample trackage.

The company's warehouses and factories are equipped throughout with Sprinkler system and the latest device for handling goods by chutes, conveyors, elevators, etc. Depreciation charges are made to the full extent allowed by the U. S. Government.

The company's traveling sales force covers a wide scope of territory, including Minnesota, Wisconsin, Iowa, South Dakota, North Dakota, Nebraska, and parts of Montana and Wyoming.

The company's main house is at St. Paul. It is at present conducting a branch house at Sioux Falls, S. Dak. This branch was opened last November, and has developed very rapidly since that time.

*THE ORGANIZATION*

The company employs approximately 425 people to conduct its business. All the executive heads have been with the institution for many years, and will continue to handle and direct the affairs of the business.

*TRADE MARKS*

The company has, during the past 25 years, developed a line of trade marks which are known in every home in its trade territory, and are of inestimable value. The best known are as follows:

*The Elk.* This is our house trade mark, and appears on all our packages and labels. It stands as our guarantee of quality and value.

| *Canned Goods* | *Coffees* | *Teas* | *Cigars* |
|---|---|---|---|
| Golden Hour | Golden Hour | Golden Hour | Eagle |
| Yellowstone | Yellowstone | Yellowstone | Hunter |
| North Star | North Star | North Star | San Juan |
| Excelsior | Sunrise | | Tidbits |
| Pine Tree | Arrow | | |

*CAPITALIZATION*

| | |
|---|---|
| Capital Stock, Preferred | $1,400,000 |
| Common Stock | 400,000 |
| Surplus | 1,192,808 |

*ASSETS*

The assets of the company January 1st, 1920, were $3,910,552. With the new capital that this issue of Preferred Stock will provide the assets will approximate $350 for each share of Preferred Stock.

*INVENTORY*

Merchandise is always inventoried at cost or market, whichever is lower at inventory time.

*GROSS SALES*

The total sales of the company for 1919 were between $7,500,000 and $8,000,000. During the year 1919 we unloaded at our platforms 826 full cars of merchandise. Approximately 2,500 carloads came to us in less than carloads.

*TURNOVER*

The company's turnover is unusually large, being 6½ times the amount of stock carried.

*EARNINGS*

After the Preferred Stock dividends are paid, no more than 7% can be paid to the Common Stock, the remainder going to the Surplus in support of interests of the Preferred Stock outstanding.

*DISCOUNTS*

The company discounts all bills; delinquent accounts receivable are charged off every six months. The company's credit losses are practically nothing, being less than one-half of 1% during 1919.

*INSURANCE*

Sufficient fire, tornado and sprinkler insurance are carried at all times to fully protect the stock of merchandise and warehouses.

## 143. DIRIGO POWER COMPANY—SPARTAN ELECTRIC COMPANY

The Dirigo Power Company furnishes a large portion of the power sold for household and commercial use in one of the large cities in the United States. This company desires to develop all branches of its central station business. Recently, it was prepared to make a reciprocal arrangement with the Spartan Electric Company to the following effect. The Dirigo Power Company was to purchase all electrical material from the Spartan Electric Company, provided the latter would refrain from selling material and supplies to isolated plants in the district served by the Dirigo Power Company. The Spartan Electric Company is one of the large manufacturers of electrical equipment and supplies in the United States.

Should the Spartan Electric Company have entered into this agreement with the Dirigo Power Company?

## 144. VOLT ELECTRIC COMPANY—IMPROVED DESIGN OF PRODUCT

The Volt Electric Company is one of the large manufacturers of electrical machinery and supplies. This company entered the steam turbine field late and undertook to develop this branch of its business as rapidly as possible. It sold a large number of steam turbines of its early designs. Later this company introduced several improvements and was able to manufacture turbines that were substantially more economical in operation. The improved turbines were advantageous to customers in keeping down the coal expense. The early turbines, however, were rugged and durable and did not require replacement, except for reasons of economy in operation.

What policy should the Volt Electric Company have adopted for the protection of customers taking the risk of purchase of the early designs of steam turbines manufactured by this company?

## 145. LACKAWANNA COMPANY—"FUTURES" IN CANNED GOODS

The "futures" system has been used for many years in the sale of canned fruits and vegetables. According to this system, in January and February of each year canners contract with wholesalers and occasionally with large retailers for the bulk of the goods that the canners expect to pack during the following summer. The wholesalers at the same time contract with retailers for canned goods to be delivered in the following October. The price to be paid by the retailer is specified in the contract, but the retailer commonly is given a guarantee against a decline in price. Under these conditions, if the spot price is lower in October than the price named in the contract, the retailer pays for his "futures" at the spot price. Provision is also commonly made in these "futures" contracts for the seller to deliver pro rata on all "futures" contracts, if the crop is small.

Retailers have been induced to buy "futures" in canned goods in order to protect themselves on special high-grade brands. The trade in these brands, however, constitutes only a small part of the sale of canned goods "futures" to retailers. The purchase of "futures" in canned goods by retailers has been encouraged on the theory that the retailer thereby saved money by securing lower prices. This theory has been widespread among retailers and wholesalers. It has been disproved, however, by a statistical study of prices of canned goods. This study[1] of the seasonal fluctuations in the price of standard canned fruits and vegetables showed that the advances in prices in a few seasons were offset by the declines in other seasons. In general, there appeared to be little fluctuation.

The Lackawanna Company, a typical wholesale grocery business, during the last three years has bought on the average 21,000 cases of "futures" in canned fruits and vegetables each year. The firm's spot purchases of canned fruits and vegetables have averaged about 2,300 cases a year. "Futures" sold to retailers during these three years have averaged 14,500 cases. This firm is operating under ordinary conditions in an eastern city of 350,000 population. The surrounding territory includes prosperous manufacturing and agricultural districts. The total sales of all merchandise of this firm are about $575,000 a year.

Why should the Lackawanna Company follow this policy in buying "futures" in canned goods? Is the company justified in selling "futures" to its retail customers?

## 146. ANNISQUAM PAPER COMPANY—FOREIGN ORDERS

The Annisquam Paper Company has a small plant for manufacturing paper. Its product is mainly coated paper. During the war the company developed an export trade with South America, especially with Venezuela. The paper exported to Venezuela was used chiefly in the manufacture of cigarettes.

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[1] This study was made by one of the students in the Harvard Graduate School of Business Administration, and the results of his investigations were embodied in his graduation thesis.

During the first half-year in 1920, the domestic demand for the product of the Annisquam Paper Company was heavy. In the domestic trade the company's product was sold primarily to the large job printers. The company's capacity was inadequate to take care both of the foreign and the domestic business. At that time the foreign business was more profitable than the domestic business, but the company foresaw that eventually the profits in the foreign business would probably not exceed those in the domestic trade.

What policy should the Annisquam Paper Company have pursued with regard to the orders for paper from Venezuela in 1920?

## 147. BLACKSTONE COMPANY—NEW BRANCHES

The Blackstone Company is a warehouse distributor of iron and steel products, including structural steel, plates and bars, tubes, black and galvanized sheets, intended for fabricating and manufacturing purposes. The total sales of the Blackstone Company are $10,000,000 a year. The Company operates warehouses in St. Louis, Detroit, Buffalo, New York, and Chicago.

The chief features of this business are the buying of steel products, storing them in long lengths, and then distributing the products in short lengths to meet customers' requirements. The Blackstone Company pays the same prices to the steel manufacturing companies for its purchases as are paid by wholesale consumers buying directly from the manufacturers. In selling the Blackstone Company receives a margin of $15 per ton over the price paid to the manufacturer. This margin constitutes the gross profit of the Company, and from it all expenses for selling, handling, interest, and other items must be met and net profit derived.

The Blackstone Company has built up its business mainly on service, in furnishing special sizes and also in being able to make immediate delivery. The shipments are made by this Company immediately upon receipt of orders, whereas orders placed with mills ordinarily have to be manufactured according to specifications before shipment.

Prices are quoted by the manufacturers and by this Company on the Pittsburgh Basing Point System.[1] The Blackstone Company adds $15 per ton to the price determined by the Pittsburgh Basing Point quotation.

A problem has arisen with regard to additional warehouses. Should the Blackstone Company establish warehouses in such cities as Boston, Philadelphia, Cleveland, Cincinnati, and so on? The Company now makes shipments to these districts from its established warehouses.

At the present time these districts also are served by warehouses of competitors, but the standard of service is not equal to that of the Blackstone Company. These districts apparently afford a lucrative market, but for the Blackstone Company to establish warehouses in these cities would cut into the territories served at the present time by the New York, Buffalo, Detroit, and Chicago warehouses. Intensified sales effort would be necessary in the curtailed territories to offset the loss in their sales incidental to the establishment of additional warehouses.

At the present time, if the Blackstone Company sells in Boston, Philadelphia, Cleveland, or Cincinnati, it is at a disadvantage because of the freight differentials. The Philadelphia price, for example, is two cents per ton less than the New York Price, because of the lower freight rate to Philadelphia, on the Pittsburgh Basing Point system. The price at Trenton, New Jersey, is the same as the New York price. Thus the Blackstone Company has an advantage in territory as far distant as Trenton from New York City, but beyond that point its competitors in Philadelphia have lower freight rates. The local merchants, in each territory where there is no Blackstone warehouse, have lower freight rates from Pittsburgh than the combined freight rate incurred by the Blackstone Company on shipments from Pittsburgh to its warehouses and thence to final destination.

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[1] See Problem No. 201, pp. 297 to 332.

The Blackstone Company and the steel mills sell to practically the same classes of customers, including railroads and other transportation companies, automobile manufacturers, the oil industry, and building constructors. About one-third of their tonnage is structural steel—beams, angles, and channels. A builder frequently buys steel for the basement and first floor of a new building from the Blackstone Company for immediate delivery because of the large stocks that this company carries; the builder orders steel for the rest of the building from the steel mills at the time that his order is given to the Blackstone Company for its portion of the material. In this way the builder is enabled to have his stocks of steel on hand as required. The Blackstone Company also sells large quantities of material for plant maintenance. Small machine shops and similar establishments purchase from the Blackstone Company.

The Blackstone Company does no fabricating; that is, it does not manufacture columns, girders, and so forth, out of structural steel. The Company sells a general line of iron and steel, including specialties such as various grades and kinds of sheet iron, high speed steel, tool steel which frequently is sold in very small lots, machinery and boiler specialties such as flanges, braces, hangers, and tube expanders. This Company is not in competition with the steel mills. It takes the small business that is not profitable to the mills. About 12% of the entire steel output of the country is handled through warehouse distributors, of which the Blackstone Company is one of the important ones.

The Company carries wider plates and heavier machinery for cutting these plates than most of the other wholesale distributors in the territories where the

Blackstone Company is considering the establishment of warehouses. Thus the Blackstone Company is able to render services that its competitors have not been rendering up to the present time. There is a possibility of developing new business through service to builders by educating them, for example, to use sizes of steel plates and lengths of iron and steel products that are more economical and advantageous. The Company takes all its cash discounts, the terms being one-half of one per cent ten days, net thirty days.

The question that the Company faces is whether it should establish new warehouses in order to render a country-wide service. How should the Blackstone Company proceed in determining in which, if any, of these districts warehouses should be established?

## 148. Royal Portland Cement Company

The Royal Portland Cement Company several years ago faced a serious problem in the distribution of its product due to the increasing competition and the fall in the price of Portland cement.

The production of Portland cement in the United States increased from 42,000 barrels a year in 1880 to 1,000,000 barrels a year in 1896, and to 92,000,000 barrels a year in 1913. In 1918 under war conditions, the annual production was 71,000,000 barrels.

The price of Portland cement dropped from $2.50 a barrel in 1880 to $0.81 a barrel in 1909. From 1909 to 1913 the price ranged from $0.81 to about $1.00 a barrel.

The rapid growth of the industry in the two decades prior to the Great War and the accompanying fall in price of Portland cement were caused primarily by technical improvements in the industry. This was the period of the invention and introduction of the new process for burning pulverized coal in the rotary cement kiln. The adoption of this invention resulted in a large saving in labor costs and also made possible the utilization of vast stores of raw material in practically all parts of the United States. Another source of Portland cement was opened up during this period by the utilization of blast furnace slag which hitherto had been a troublesome waste product. The Universal Portland Cement Company, which is a subsidiary of the United States Steel Corporation, had an annual capacity in 1914 of 13,500,000 barrels of Portland cement, all produced from blast furnace slag.

The Royal Portland Cement Company operates plants located in the Lehigh district, equipped with up-to-date machinery. Up to 1910 this company had been one of the leaders in the industry. It desired to maintain its position.

What course or courses of action were open to the company?

### 149. PENOBSCOT COMPANY—MARKET ANALYSIS

The Penobscot Company manufactures water wheels of all sizes and for practically all the purposes for which water wheels are used. The company is equipped to meet the requirements of users of water wheels in all parts of the world.

What are the main points for consideration in analyzing the market for this company's product?

### 150. Eskimo Stove Company—Market Analysis

How should the Eskimo Stove Company of Buffalo, New York, undertake to analyze its market? This company manufactures stoves and ranges in a variety of styles and sizes. It controls no patents of especial significance, but its product enjoys a well-established reputation. The company sells the bulk of its output in a territory within a radius of 300 miles of Buffalo.

### 151. Amazon Rubber Company—Market Analysis

The Amazon Rubber Company manufactures rubber footwear as well as other products. This company wishes to analyze the potential demand for rubber footwear in the United States. Its product is sold entirely under its own brands to shoe wholesalers and also direct to medium-size and large retail stores.

What suggestions should be given to the sales manager of the Amazon Rubber Company for the analysis of the Company's market?

### 152. Pemaquid Automobile Company—Selling Points

The Pemaquid Automobile Company was established in Detroit over ten years ago. The company has been successful financially. It has an especially good reputation for the manufacture of engines. The company has recently brought out a new six-cylinder automobile.

The selling price of this new car is $1,500. The car is made in two models. It is manufactured in a new plant with modern, up-to-date equipment. It has numerous features, not only in the attractive design of the body but in the motor cooling device and also in other mechanical parts. Special attention has been given to means for securing ease and comfort in riding and also for obtaining economy in the use of gasoline and tires.

Before this car was offered for sale, it was put through severe tests on the roads in several parts of the country. As a result of these tests, a few minor improvements in the car were made.

What groups of selling points can the Pemaquid Automobile Company use in marketing this car?

## 153. GOODYEAR TIRE & RUBBER COMPANY—SELLING POINTS

The following news item was published March 4, 1920:

> Los Angeles, Calif., March 4.—Three building units are rising rapidly and will be completed by June 1 for the Goodyear Tire & Rubber Company and the Goodyear Textile Mills Company. The establishment of this plant entails an expenditure of $11,000,000. Altogether, 9,000 men will be employed and 7,500 tires will be the daily output. A power plant consisting of three 600-horsepower boilers of the oil-burning type is involved. The plant is near both the Arizona and Imperial Valley cotton fields, which furnish the kind of staple which is the basis of the Goodyear tires.

Along with the construction of the manufacturing plant, the Goodyear Company is beginning a housing development, called the Goodyear Gardens. This community centre will contain 800 houses. Every workman has a chance to own his own home, on a small initial payment and monthly installments, according to his ability to pay.

What new selling points for the products of this company are suggested by this announcement?

### 154. EDGEWEAR SAFETY RAZOR COMPANY—SELLING POINT

The Edgewear Safety Razor Company desires to obtain a firmer hold on its market, and for this purpose considers it necessary to seek a new selling point for its product. This company has been in business for a period of more than ten years. The Edgewear razor is sold for $1.00. National distribution has been secured through retail hardware and retail drug stores. The sales already amount to a large volume, but it is desired to increase them substantially. Up to the present time, no particular selling point has been featured except price, ease of use, and general claims of superiority.

How can the Edgewear Safety Razor Company proceed to find a new selling point?

## 155. BANNER MANUFACTURING COMPANY—GRADE OF PRODUCT

The Banner Manufacturing Company has been manufacturing furniture for twenty years. It is incorporated with a capital stock of $500,000 authorized and issued. Its two plants, located in the Middle West, employ in all about 400 workers. The output is sold direct to furniture retailers by the company's own salesmen.

For several years past this company has been making the cabinets for several talking machine companies. Realizing that it has facilities for putting out machines more cheaply than other companies, it has decided to place upon the market, under its own name, a line of talking machines of its own make. It has secured the agency rights in America for foreign-made motors, reproducers, and tone-arms.

Should the company put out a machine of better grade than competing machines at the same price, or should it put out the same grade of machine at a lower price?

## 156. EXCELSIOR WRITING PAPER COMPANY—SALES ORGANIZATION

The Excelsior Writing Paper Company discovered that apparently a substantial number of its customers were not receiving proper attention, and a change in the administrative organization has been proposed for consideration.

The Excelsior Writing Paper Company markets its products in practically all parts of the United States. It sells to wholesalers and also direct to numerous retailers in the large and medium-size cities and towns.

About 40% of the sales are made to customers who buy in large quantities. The remainder of the customers purchase small lots. The customers buying in large lots are regular patrons of this company, but it now appears that among the large number of merchants who buy small quantities there is frequent change. Many small customers who have bought in the past are no longer purchasing from this company.

This company has sought to emphasize a policy of fair treatment to customers. Nevertheless, it appears that in the sales department and also in the credit and shipping departments more personal attention has been given to the large customers than to the small customers.

Under the present organization the sales, credit, claims and grievances, and shipping departments are functionalized. The claims and grievances for all customers, for example, are handled directly and exclusively in a single department. It previously had been planned to carry this specialization of functions further as the organization developed.

In order to secure better service for the small customers, it is now proposed that the sales office should be reorganized with territorial rather than functional specialization. According to this new plan, the hiring and control of all salesmen for all territories will be centralized under one head. Advertising will also be centralized, and there will be a single credit department. The country would be divided into territories, and one man in the sales department would be placed in charge of each territory. He would have charge of the routine sales work, claims and grievances, and all correspondence with customers in his territory. In dealing with matters such as credit, he would, of course, be guided by the decision of the credit department.

Is this proposed plan practical?

## 157. CALHOUN MANUFACTURING COMPANY—SELECTION OF SALESMEN

The Calhoun Manufacturing Company is engaged in the manufacture and sale of ink, typewriter ribbons, and carbons. Its products are sold to a few wholesalers, to large retailers, and to large industrial and commercial consumers. The company maintains a travelling salesforce of about forty men. The members of the salesforce at the present time are high-grade salesmen. Nevertheless, the company wishes to exercise greater care in the future in the selection of recruits for the salesforce, in order to improve its quality.

The following instructions have been issued regarding the selection of salesmen:

### SELECTION OF SALESMEN

*Qualifications:* Calhoun salesmen should be selected from prospects who possess, or can be trained to attain the qualifications described below.

1. *Health:* There should be no question of the applicant's health, which means not only condition at the time, but also his power of resistance. As this is to be determined by a physician's examination, no further description is needed here.

2. *Appearance and Manner:* The chief points to be noted under this heading are

(1) personal neatness as shown by conditions of nails and teeth, beard and hair;
(2) dress, as shown by condition of shoes, linen, hat and suit;
(3) taste, as shown by style and colors of clothing; and
(4) bearing, as shown by the degree of courtesy, pleasing voice, sense of humor, etc.

3. *Industry:* This is a very important qualification and means that the man should possess the trait of working hard under all conditions, pleasant or discouraging. It has been called stick-to-itiveness, persistency, grit, etc.

4. *Education:* The equivalent of a high school education is the lowest educational standard we should accept. This education may have been obtained actually at a high school, or in an evening school, or by the faculty of learning in other ways. Furthermore, if over four years removed from high school graduation age (17 years) we should check up his

knowledge of general business principles and conditions that he should have learned if employed anywhere previously. This will indicate his ability to learn wherever he is placed, and his habits of attention to the tasks assigned to him.

5. *Age:* We should select men whose ability to learn new ways of doing and to put them into practice is still pronounced. Another way of putting it is to say we want men who can be moulded easily to fit our needs, and yet men who are mature. The usual age that carries these qualities is from 20 to 25 years. It should be borne in mind, however, that these qualities frequently are to be found in men of older years.

6. *Personality:* This is the sum total of the effects of all qualifications. It is not safe to use this as an individual quality, but may be used to describe the man after the detailed analysis has been made.

*Interview:* The following suggestions for sizing up a man are helpful in determining whether the candidate has the qualifications for a position as a Calhoun Salesman:

1. *Intermittent Interview:* The candidate should be observed under as many conditions as possible. This may be done in several ways,—in his place of employment, by taking him to lunch, by having him call at the office, etc. The purpose is to remove any artificial restraint and thus judge him as he naturally acts and talks, or in other words to study the man while he is "off his guard." Again by observing him at intervals, there is a correspondingly greater chance of observing the man under varying conditions and in various moods.

2. *Multiple Interview:* It has also been helpful to have a senior salesman interview and observe the prospective salesman. In fact selections made on the basis of more than one man's judgment usually mean a sounder decision.

3. *Record of Interviews:* After each interview or observation of the candidate, it will be helpful to note the impression of the different qualities he has. The application blank is to be used to jot down the various facts learned and impressions gained from time to time. The impression will also vary from one time to the next and give you warning to check up such judgments.

4. *Final Interview:* The blank, with all its details, should be filled out when you have decided that the prospective candidate is worthy of serious consideration for a position with us. At that time you should ascertain all the facts. All decisions or qualifications which involve judgment, not facts, should be made before the final interview. At this time in addition to checking up the items of age, resistance, etc., you should find out if the man is able and is willing to go wherever he may be called upon by us to go.

*Source of Supply:* The following suggestions are made to indicate where such men as we need have been found in the past.

1. Calhoun Branch Houses.
2. The Calhoun Factory.
3. *Customers Stores.* This is a very good source in which to practice the intermittent interview method, particularly to check up the qualifications of appearance, manner, industry, age and education. The clerk in the customer's store need never know that you are studying him as a possible Calhoun salesman and hence will be "off his guard" and natural. Clerks in our customers' stores get a knowledge of our lines that is of value to them, if they sell for us.
4. *High Schools.* Here is also a good place to find the right kind of material. It is always possible to get in touch with the Principal of the school, and go over with him the list of young men who will be graduated. He or his assistants know of each boy's qualities and ambitions, and usually can recommend for your observations one or two possibilities.
5. *Advertising.* Experience has proven that this method of getting a supply of candidates is not efficient. It should be used only as a last resort.
6. *Small cities and large towns.* District Managers and salesmen as they travel can keep in mind the need for Calhoun Salesmen and be on the lookout for good prospects. The smaller cities and larger towns are as likely to have them as the large cities.
7. *Records.* A list of possible candidates should be kept at all times. The method of intermittent interviews makes it possible to take sufficient time to size up the man, so that whenever there comes a call for more men, all the work preliminary to the final interview will have been done, with a number of good prospects in sight for the position.

A vacancy on the Calhoun salesforce has occurred, and it is to be filled by one of the candidates whose application records, with omission of minor details, are given on the following pages. Which candidate should be selected? The successful candidate is to be assigned to the Ohio district; later it may be necessary to transfer him elsewhere.

## APPLICATION RECORD

### CALHOUN MANUFACTURING COMPANY

Full Name James Smith

Source of Application (Check)

C. M. C. Branch House  Recommended by Customer  [✓ Advertisement]  Personal

C. M. C. Factory  Other

Interviewed by K R T  Dates x x

Local Address x x  Telephone x x

Home Address x x

Age 25  Where Born New York  Birthplace of Father U. S.  Birthplace of Mother U. S.

Single ✓  Married —  No. Children —  Total No. Dependents  Wholly —  Partial 1

Health (Apparent) Good  (Rating by Physician) Good

## EDUCATION

[✓ Grade School]  [✓ High School]  Trade School  Business School  College

Special Courses (Specify) x x

## ACTIVITIES

Business Organizations (Specify if Member) Board of Trade

Social Organizations Lincoln Club

Athletics Tennis, golf

Hobbies x x

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Wilson Mfg. Co. | 3 years | Shipping D. | $ 75 | Did not like work | Good<br>Fair ✓<br>Poor |
| Empress Dept. Store | 18 mos. | Salesman | $ 100 | War service | Good<br>Fair ✓<br>Poor |
| Excelsior Co. | 2 years | Salesman | $ 150 | Desired higher salary | Good<br>Fair ✓<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) novelty goods

Territory Desired New England

Will be Willing to Take Any Assignment? Yes ✓ No —

Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | ✓ | | |
| Dress | ✓ | | |
| Voice and Language | ✓ | | |
| Frankness | | | ✓ |
| Energy | ✓ | | |
| Persistence | | ✓ | |
| Persuasive Force | | ✓ | |
| Breadth of View | | | ✓ |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | | ✓ | |
| Tact and Courtesy | ✓ | | |
| Alertness | ✓ | | |
| Ambition | ✓ | | |
| Analytical Power | | ✓ | |
| Attention to Detail | | | ✓ |
| Interest and Enthusiasm | | | ✓ |
| Business Sense | | ✓ | |

## APPLICATION RECORD
### CALHOUN MANUFACTURING COMPANY

Full Name William Brown
Source of Application (Check)
C. M. C. Branch House — Recommended by Customer — Advertisement — Personal
[✓ C. M. C. Factory] — Other
Interviewed by K. R. T. Dates + +
Local Address + + Telephone + +
Home Address + +
Birthplace of Father Ireland
Age 24 Where Born Boston Birthplace of Mother "
Single ✓
Married — No. Children — Total No. Dependents Wholly — Partial —
Health (Apparent) Good (Rating by Physician) Good

## EDUCATION

[✓ Grade School] [✓ High School] Trade School Business School College
Special Courses (Specify) + +

## ACTIVITIES

Business Organizations (Specify if Member) + +
Social Organizations + +
Athletics none
Hobbies none

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Calhoun Mfg. Co. | 5 years | 4 Depts. | $150 | Desires selling experience | Good ✓<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) Knows all our lines thoroughly
Territory Desired New England
Will be Willing to Take Any Assignment? Yes ✓ No —
Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | | ✓ | |
| Dress | ✓ | | |
| Voice and Language | | ✓ | |
| Frankness | ✓ | | |
| Energy | ✓ | | |
| Persistence | ✓ | | |
| Persuasive Force | | ✓ | |
| Breadth of View | | ✓ | |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | | ✓ | |
| Tact and Courtesy | | ✓ | |
| Alertness | ✓ | | |
| Ambition | ✓ | | |
| Analytical Power | | ✓ | |
| Attention to Detail | ✓ | | |
| Interest and Enthusiasm | ✓ | | |
| Business Sense | | ✓ | |

# APPLICATION RECORD

## CALHOUN MANUFACTURING COMPANY

Full Name Charles Black

Source of Application (Check)

C. M. C. Branch House — Recommended by Customer — Advertisement — [✓ Personal]

C. M. C Factory — Other

Interviewed by K R. T — Dates + +

Local Address + + — Telephone + +

Home Address + +

Age 24 — Where Born Pennsylvania — Birthplace of Father U. S. — Birthplace of Mother ''

Single ✓ — Married — — No Children — — Total No. Dependents — Wholly — — Partial —

Health (Apparent) Good — (Rating by Physician) Fair

## EDUCATION

[✓ Grade School] [✓ High School] Trade School — Business School — College

Special Courses (Specify) + +

## ACTIVITIES

Business Organizations (Specify if Member) + +

Social Organizations Andiron Club

Athletics Tennis

Hobbies + +

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Sixth National Bank | 4 years | Clerk | $125 | Lack of Opportunity | Good ✓<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) None

Territory Desired Pennsylvania

Will be Willing to Take Any Assignment? Yes ✓ No —

Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | | ✓ | |
| Dress | | ✓ | |
| Voice and Language | | ✓ | |
| Frankness | ✓ | | |
| Energy | | ✓ | |
| Persistence | | ✓ | |
| Persuasive Force | | ✓ | |
| Breadth of View | | | ✓ |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | | ✓ | |
| Tact and Courtesy | | ✓ | |
| Alertness | | ✓ | |
| Ambition | ✓ | | |
| Analytical Power | | | ✓ |
| Attention to Detail | ✓ | | |
| Interest and Enthusiasm | | ✓ | |
| Business Sense | | ✓ | |

# APPLICATION RECORD
## CALHOUN MANUFACTURING COMPANY

Full Name Horace Gray

Source of Application (Check) ✓

C. M. C. Branch House  Recommended by Customer ✓  Advertisement  Personal

C. M. C. Factory  Other

Interviewed by D. O. F.  Dates + +

Local Address + +  Telephone + +

Home Address + +

Age 21 Where Born New York  Birthplace of Father U. S.  Birthplace of Mother Canada

Single ✓  Total No. Dependents  Wholly —  Partial —

Married —  No Children —

Health (Apparent) Good  (Rating by Physician) Good

## EDUCATION

Grade School ✓  High School  Trade School  Business School ✓  College

Special Courses (Specify) Bookkeeping

## ACTIVITIES

Business Organizations (Specify if Member) + +

Social Organizations + +

Athletics + +

Hobbies + +

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Anderson & Co. | 2 years | Retail Salesman | $100 | none | Good ✓<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) Has sold our goods and others

Territory Desired Middle West

Will be Willing to Take Any Assignment? Yes ✓ No —

Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | ✓ | | |
| Dress | ✓ | | |
| Voice and Language | ✓ | | |
| Frankness | ✓ | | |
| Energy | | ✓ | |
| Persistence | | ✓ | |
| Persuasive Force | | | ✓ |
| Breadth of View | | | ✓ |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | | ✓ | |
| Tact and Courtesy | ✓ | | |
| Alertness | | ✓ | |
| Ambition | | ✓ | |
| Analytical Power | | ✓ | |
| Attention to Detail | | | ✓ |
| Interest and Enthusiasm | | ✓ | |
| Business Sense | | ✓ | |

## APPLICATION RECORD

### CALHOUN MANUFACTURING COMPANY

Full Name Roger Green

Source of Application (Check)

C. M. C Branch House — Recommended by Customer — Advertisement — Personal ✓

C. M. C. Factory — Other

Interviewed by H. R. T. Dates + +

Local Address + + Telephone + +

Home Address + +

Birthplace of Father U. S.

Age 26 Where Born Illinois Birthplace of Mother "

Single ——

Married ✓ No. Children 2

Total No. Dependents Wholly 3 Partial —

Health (Apparent) Fair (Rating by Physician) Fair

## EDUCATION

Grade School ✓ High School ✓ Trade School Business School College

Special Courses (Specify) + +

## ACTIVITIES

Business Organizations (Specify if Member) + +

Social Organizations Dundee Society

Athletics + +

Hobbies + +

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Emerson Mfg. Co. | 3 years | Travelling salesman | $ 100 | Salary | Good<br>Fair ✓<br>Poor |
| Sampson Mfg. Co. | 2 years | Travelling salesman | $ 150 | Salary | Good<br>Fair ✓<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) Has sold products of our chief competitors

Territory Desired Middle West

Will be Willing to Take Any Assignment? Yes — No ✓

Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | ✓ | | |
| Dress | | ✓ | |
| Voice and Language | ✓ | | |
| Frankness | | ✓ | |
| Energy | | ✓ | |
| Persistence | | ✓ | |
| Persuasive Force | | ✓ | |
| Breadth of View | | ✓ | |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | ✓ | | |
| Tact and Courtesy | ✓ | | |
| Alertness | | ✓ | |
| Ambition | | ✓ | |
| Analytical Power | | ✓ | |
| Attention to Detail | | | ✓ |
| Interest and Enthusiasm | | ✓ | |
| Business Sense | ✓ | | |

## APPLICATION RECORD
### CALHOUN MANUFACTURING COMPANY

Full Name Amos White

Source of Application (Check)

C. M. C. Branch House — Recommended — Advertisement — Personal ✓

C. M. C. Factory — by Customer — Other

Interviewed by D. O. F — Dates + +

Local Address + + — Telephone + +

Home Address + +

Birthplace of Father U. S.

Age 24 Where Born Kentucky — Birthplace of Mother "

Single ✓

Married — No. Children — Total No. Dependents — Wholly — Partial —

Health (Apparent) Good — (Rating by Physician) Good

## EDUCATION

Grade School ✓ — High School ✓ — Trade School — Business School — College

Special Courses (Specify) + +

## ACTIVITIES

Business Organizations (Specify if Member) Business Men's Club

Social Organizations + +

Athletics + +

Hobbies + +

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| Lawrence Silk Co. | 4 years | Credit Dept. | $ 125 | Business closed | Good ✓<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc.) None

Territory Desired Far West

Will be Willing to Take Any Assignment? Yes ✓ No —

Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | ✓ | | |
| Dress | | ✓ | |
| Voice and Language | | ✓ | |
| Frankness | ✓ | | |
| Energy | ✓ | | |
| Persistence | ✓ | | |
| Persuasive Force | ✓ | | |
| Breadth of View | | ✓ | |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | ✓ | | |
| Tact and Courtesy | ✓ | | |
| Alertness | ✓ | | |
| Ambition | ✓ | | |
| Analytical Power | | ✓ | |
| Attention to Detail | | ✓ | |
| Interest and Enthusiasm | ✓ | | |
| Business Sense | ✓ | | |

# APPLICATION RECORD

## CALHOUN MANUFACTURING COMPANY

Full Name Adam Printz
Source of Application (Check)
C. M. C. Branch House  Recommended by Customer  Advertisement  Personal ✓
C. M. C. Factory  Other
Interviewed by K. R. T.  Dates ++
Local Address ++  Telephone ++
Home Address ++
Age 23 Where Born California  Birthplace of Father Germany
Birthplace of Mother U. S.
Single ✓
Married —— No Children ——  Total No. Dependents  Wholly —  Partial —
Health (Apparent) Good  (Rating by Physician) Good

## EDUCATION

Grade School ✓  High School ✓  Trade School  Business School  College ✓
Special Courses (Specify) ++

## ACTIVITIES

Business Organizations (Specify if Member) ++
Social Organizations College fraternity
Athletics Football, Tennis.
Hobbies ++

## PREVIOUS EMPLOYMENT

| Company | Period | Job | Salary Monthly | Reasons for Leaving | References |
|---|---|---|---|---|---|
| None | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |
| | | | | | Good<br>Fair<br>Poor |

## SPECIAL ABILITY

(Knowledge of Special Lines, etc ) None
Territory Desired No preference
Will be Willing to Take Any Assignment?  Yes ✓ No ——
Qualifications (Applicant to be Rated After Each Interview)

| | Good | Fair | Poor |
|---|---|---|---|
| Personal Appearance | | ✓ | |
| Dress | | ✓ | |
| Voice and Language | | | ✓ |
| Frankness | ✓ | | |
| Energy | ✓ | | |
| Persistence | | ✓ | |
| Persuasive Force | | | ✓ |
| Breadth of View | | ✓ | |

| | Good | Fair | Poor |
|---|---|---|---|
| Adaptability | | ✓ | |
| Tact and Courtesy | ✓ | | |
| Alertness | | ✓ | |
| Ambition | ✓ | | |
| Analytical Power | ✓ | | |
| Attention to Detail | | | ✓ |
| Interest and Enthusiasm | ✓ | | |
| Business Sense | | ✓ | |

## 158. Calhoun Manufacturing Company—Form of Application Record

Should any modifications be made in the instructions and forms used by the Calhoun Manufacturing Company as stated in the preceding problem? It has been suggested, for example, that thrift, reliability, and perhaps other qualities should be added to the list of qualifications on which applicants are to be rated.

## 159. Iroquois Typewriter Company—Sales Manual

The general sales manager of the Iroquois Typewriter Company has a problem of deciding what is to be included in a new sales manual. The company operates forty-two branches. The sales manager of each branch selects and directs the work of the salesforce in his territory. All communications between the central office of the company and its salesmen are made through the branch managers.

In order to secure more effective training of the salesmen and greater uniformity in their methods, a system of instruction for the entire salesforce of the company is planned. One of the essential features of this plan is a sales manual, a copy of which is to be furnished to each salesman.

What sort of information and instruction should be included in this sales manual concerning:

(a) methods of salesmanship?
(b) locating prospects?
(c) sales arguments?
(d) the product?
(e) the factory?
(f) the policies of the company?
(g) any other subjects?

## 160. HAWTHORN GROCERY COMPANY—TRAINING SALESMEN

The Hawthorn Grocery Company operates a chain of 150 retail grocery stores and plans to open many new branches. At the present time about 375 men are employed in these stores.

A central employment department has been established to supervise the hiring, training, and discharging of employees. A training school for employees is to be opened. Each new employee will take a course in this school, covering two to three weeks.

What sort of instruction is it desirable to give new employees during this period?

## 161. NEPONSET SOAP COMPANY—QUOTAS FOR SALESMEN

The Neponset Soap Company, with a plant located near Boston, manufactures soap for general household use. This product is widely advertised and sold direct to retailers.

How should the sales manager of the Neponset Soap Company undertake to work out quotas for his salesmen?[1]

## 162. ADIRONDACK AUTOMOBILE COMPANY—QUOTAS FOR SALESMEN

On what basis should the Adirondack Automobile Company work out quotas for its salesmen? The company has been engaged in the manufacture of automobiles for a period of twelve years. Its products include several models of cars that sell at prices ranging from $1,200 to $1,800. The company operates twenty-five branches located in the larger cities of the United States. The territory served by each branch is divided into sections and one wholesale salesman is placed in charge of each section. There are about 150 wholesale salesmen. A quota system for these salesmen is desired.

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[1] Melvin T. Copeland, *Business Statistics*, pp. 182-183; F. H. Dodge, "Working Out Quotas," *Printers' Ink*, July 20, 1916, pp. 98-103.

## 163. KENNEBEC COMPANY—SALESFORCE EXPENSE

Melvin T. Copeland, Director,
Bureau of Research,
Harvard University,
Cambridge, Mass.

Dear Sir:

We have received your letter of July 1st and we have filled out the blank which you sent us and wish to advise you that we are very much interested in regard to the methods used by the wholesale grocers for paying their salesmen.

Our officers, the President and Treasurer, call on the city trade and part of their salary each year is charged to selling expense. We have two salesmen whose territory is within a radius of 25 miles. We pay these salesmen 35% of the gross profits. We have two salesmen whose territory is within a radius of 50 to 100 miles whom we pay 40% of the gross profits. We have two other salesmen who cover points which do not really belong to us on account of the distance and slow delivery on the goods and we are paying these salesmen 50% of the gross profits. We give our salesmen a drawing account each week of from $40 to $65 and then give them the percentage of the gross profits as stated above. Our method of figuring the gross profit is the actual cost of the goods delivered in our store with an additional charge of 4c per hundred for cartage. We include no overhead expenses in our cost of goods. We carry out the cost of each order shipped on the above basis and figure the gross profits from this basis. Our net sales in 1918 were $514,000.

We have noticed that our selling expense was higher than the average wholesale grocers' from the summaries which you have sent us, as we note that your average for the year 1918 was about 2½%. We find that our selling expense for the years 1917 and 1918 was 3 1-5%. We are open to any suggestions in regard to the plan of paying salesmen and in fact would like to know what the methods of other firms are as our plan we worked out ourselves and have not much of an idea what other firms are doing in regard to paying their salesmen.

We are not satisfied with our present method, and we should like to have suggestions as to how we can locate the cause for our high salesforce expense.

Awaiting your reply, we are,

Yours very truly,
The Kennebec Company.

## 164. OGUNQUIT WHOLESALE GROCERY COMPANY—METHOD OF PAYING SALESMEN

The Ogunquit Wholesale Grocery Company employs twenty-two travelling salesmen. They are paid a commission of 25 to 40% on the profits. The regular commission is paid to each salesman on mail orders and telephone orders received from his territory. Each salesman is also allowed his regular commission on drop-shipment orders secured by specialty salesmen of manufacturers in his territory for the account of the Ogunquit Wholesale Grocery Company.

Is the Ogunquit Wholesale Grocery Company justified in paying the regular commission to its salesmen on mail orders,[1] telephone orders, and drop-shipment orders?

## 165. SEMINOLE COMPANY—METHOD OF PAYING SALESMEN

The Seminole Company, manufacturing toilet articles, employs sixty-five travelling salesmen. Its salesforce gradually is being increased in numbers. The company sells to retail drug stores over a wide territory. It devotes attention to "dealer helps," particularly to "window displays." The salesmen are expected to assist merchants in using these "helps." At the present time each salesman is paid a salary and is reimbursed for his actual expenses.

What would this company gain by substituting a commission on sales or on profits for the method of payment by salary? Does the salary method have any special advantage in this case?

What is to be said for and against the plan of reimbursing a salesman for his actual expenses as compared to the plan used by some of this company's competitors according to which the reimbursement for expenses is covered by the commission or by a lump sum payment?

Would it be practical for this company to pay a small bonus to a salesman for each new account secured?

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[1] A. H. Deute, "Shall Salesmen Get Credit for Mail Orders?" *Printers' Ink*, June 26, 1919, pp. 17-19.

## 166. NORFOLK HOSIERY COMPANY—GUARANTEE

The Norfolk Hosiery Company is to add silk hosiery to the other classes of goods that it now manufactures. It is to produce both men's and women's silk hosiery. The quality is to be as good as that of any competitor. The hosiery is to be widely advertised under the manufacturer's trade-mark.

Should a guarantee of the product be given to customers? If so, in what form? If the product is guaranteed, should replacements be made by dealers or directly by the Norfolk Hosiery Company?

One manufacturer of a similar product states merely that the produce is "guaranteed" without further qualification or explanation. Another hosiery company has the following form of guarantee on the ticket attached to each pair of hose: "If this pair does not wear satisfactorily, please return with this ticket to our factory, and we will send a new pair in exchange."

A manufacturer of silk gloves has used the following form of guarantee, stated on the ticket attached to each pair of gloves: "Warranted not to cut through or wear out at the finger ends with reasonable wear." On the inside cover of the carton in which the goods are shipped to retailers, it is explained that the guarantee is intended to cover tips of gloves only while the rest of the glove is in good condition. It is not intended to cover worn-out gloves, washed gloves, gloves cut by rings, strained gloves, and so on. The exchanges are made by the dealer, and the customer must surrender the guarantee tickets of both the pair returned and the new pair received in exchange.

Another glove manufacturer states his guarantee as follows: "Any gloves bearing our name are warranted not to tear in trying on. Gloves that show defects in material or workmanship when first tried on will be credited or exchanged. We cannot accept for exchange the return of worn or soiled gloves, but will be pleased to repair same free of charge."

A tooth brush manufacturer uses the following guarantee: "This brush is made of the best material. If defective, we will replace it."

## 167. ALLEGHENY WHOLESALE GROCERY COMPANY—RETURN GOODS

The Allegheny Wholesale Grocery Company has an annual volume of sales of $1,845,000. The merchandise returned by customers averages about $34,000 a year.

What policy should the company adopt for dealing with returns?

The conditions in the wholesale grocery trade generally have been summarized as follows by one wholesale grocer:[1]

> There are two classes of goods returned and many kinds of allowances demanded. First, referring to the goods returned, there is the merchantable class. The question instantly presents itself, "Why are merchantable goods returned?" There are a number of answers to this question. The quality may not be right or the shipment may be unreasonably delayed; the customer may be a careless buyer, and order more than his trade requires. In this instance, the salesmen are as a rule responsible, at least in a large measure. There may have been a substitution by the jobber; sending something "just as good" as the brand ordered; the salesman may have been overzealous and might have misrepresented the goods.
>
> It must be admitted that a large quantity of merchantable goods are returned with freight and other charges fol-

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[1] O. B. McGlasson: "Returned Goods and Allowances," *National Wholesale Grocers' Bulletin*, March 5, 1917. Another statement regarding the returned goods problem is given in the *National Wholesale Grocers' Bulletin*, November 4, 1916.

lowing to be paid by the jobber, showing a direct loss, aside from the loss of profit and deterioration.

* * * * * *

The second class of goods are those which in some instances were sold and shipped years, in others, months ago. Without any notice or complaint from the customer the jobber is shipped a consignment of returned goods. The goods are old, spoiled, stale, shopworn and often worthless. One lot returned is worth 50% of the original cost; another 20%, and another absolutely of no value, not worth freight charges.

The day the goods are returned, or more often some days later, the customer writes to the jobber requesting that credit be placed to his account for the goods returned, with perhaps no further explanation, or the customer frequently ships the returned goods without any letter or comment whatever. In this case, he, as a rule, expects to make a payment of his account, and returned goods are charged by him back to the jobber at the original invoice value, with check to balance, or to balance his account to a certain date.

The customer in these cases assumes the authority to charge back the full invoice value for worthless goods or for goods worth only a small percentage of the original value, and invariably insists the goods returned are "OK" or in the same condition as when shipped to him, and after writing the customer repeatedly with a view to adjusting such a claim with a reasonable allowance, what is fair and right, his reply brings an undercurrent of feeling suggesting that his business will be transferred to another house unless he received full credit for goods returned, and frequently his letters are plain and make this statement in so many words.

Salesmen in such cases usually take the part of the customer. Therefore, under existing conditions the jobber is helpless and a large per cent of unjust claims made by customers for worthless goods returned are allowed by jobbers, as a matter of policy, and passed to the credit of the customer.

## 168. Katahdin Cotton Mills—Cancellations and Returns

The following sales contract is used by the Katahdin Cotton Mills. The company operates a mill of 115,000 spindles for the manufacture of fine grey goods. The output is sold chiefly to garment manufacturers. wholesalers, and converters.

CONTRACT

Sold To..................................................
QUANTITY
......yards (variation not to exceed 2% allowed)
......pieces of.....................yards each
......bales of.....................yards each
(Allowable variation in length of pieces *if special.*)
In addition, buyer to take....% Seconds —........
and seller to deliver if made:–....% Tailings at stated contract price if contract is not renewed.
QUALITY..................................................
TIME OF DELIVERY
...................from date hereof
...................during each week, commencing week ending..................
...................during each month, beginning in the month of...............
WIDTH IN INCHES..........................................
COUNT PER INCH,............Warp..........Filling....
WEIGHT:
No Shipment to average lighter
No bale to be over 1% ....... than......YARDS TO THE POUND
No piece to be over 3% heavier
PRICE.............................CENTS PER YARD
TERMS OF PAYMENT:
Net............days from date of delivery
Net............days from date of delivery less....% for payment within...........days from date of delivery.
PLACE OF DELIVERY:
F.O.B. to carrier at...............with........... freight allowance.
F.O.B................................
SPECIAL CONDITIONS:......................................
SHIPPING INSTRUCTIONS:

If the production of the seller shall be curtailed during the time above named, by strikes, lockouts, or unavoidable casualties, the deliveries shall be made and accepted in proportion to the production.

The provisions of Paragraphs I, II, and III, and the allowable variations from specifications as adopted by The American Cotton Manufacturers' Association and The National Association of Cotton Manufacturers, all as printed on the back hereof, are accepted and agreed to as a part of this contract, unless otherwise stated herein.

This sale note is the entire contract between the buyer and seller, and any alteration in or changes from the printed form of this contract must appear on it in writing.

..................................

ACCEPTED:

..................................

Boston,......................

Form 54.

Paragraph I.—PASSING OF TITLE ON DELIVERY. Unless otherwise specified, the title to goods sold passes to the buyer (subject to the right of stoppage *in transitu*):—

a. Upon delivery F.O.B. to carrier, consigned to buyer, and thereafter goods are at buyer's risk.

b. Upon arrival of goods at destination and delivery to buyer of bill of lading or of goods, in the case of goods to be delivered F.O.B. elsewhere than to carrier.

c. Upon delivery of indorsed bill of lading or of goods, in the case of goods consigned to seller's order.

d. Upon the separation of the goods and holding subject to buyer's order (the invoice to follow by due course of mail), in the case of goods to be held or if buyer fails to give shipping instructions.

Paragraph II.—STORAGE AND INSURANCE. Goods invoiced and held subject to buyer's orders shall be at buyer's risk, but covered by fire insurance effected by sellers in reputable companies.

Paragraph III.—REJECTIONS AND CLAIMS. The buyer cannot reject the goods for delay in delivery unless he notifies the seller within five business days from receipt of bill of lading, or of invoice if goods are to be held. When contract calls for delivery in instalments, the buyer cannot cancel the contract for any default in any one or more instalments not amounting to a substantial breach of contract, but may cancel or replace at seller's expense any delivery that is delayed.

Buyer cannot reject goods for defects in quality or other like defaults (a) if he cuts or converts them, nor (b) unless he notifies seller within ninety days from receipt by him or at finishing works of goods not held, or within ninety days after date of invoice if goods are invoiced and held; nor (c) unless such defects amount to a substantial breach of contract.

Loss of right to reject does not deprive the buyer of his right to claim damages, if any; but no recovery shall be had on any claim not made within one year from receipt of goods or from date of invoice if goods are held.

### ALLOWABLE VARIATIONS FROM CONTRACT SPECIFICATIONS

WIDTH. The width shall not vary anywhere by more than 3/8 of an inch below the stipulated width nor more than 5/8 of an inch above. The width shall not be uniformly less than the stipulated width, but must, in a majority of places in each piece, be equal to, or greater than, the stipulated width. Goods shall be measured at right angles to the selvages when laid open on a flat horizontal surface and smoothed out by hand, but not stretched.

WARP COUNT. Except within four inches of each selvage (where exclusive of the selvage, the count must approximate that stipulated), the number of warp threads per inch shall not vary anywhere by more than one thread per inch below the stipulated count, nor by more than two threads per inch above. The number of threads in each piece must equal the stipulated count multiplied by the stipulated width plus the extra threads used in the selvage.

FILLING COUNT. The number of threads in the filling, or weft, shall not vary anywhere by more than three threads per inch below the stipulated count, nor by more than four above. In the case of sateens, when the count of filling exceeds the count of the warp, the allowance for variation above specified shall be increased by the same percentage that the filling count exceeds that of the warp count. In any case including sateens, the filling count per inch shall not run below the stipulated count throughout the piece, but must, in a majority of places in each piece, equal or be more than the stipulated count.

WEIGHT. In case of controversy regarding the weight of goods, decision shall be based on goods which have been exposed for twenty-four hours to normal atmospheric conditions approximating a temperature of 70 degrees F. and a humidity of 70 per cent.

In the past, whenever a sudden slump in business conditions has occurred, the Katahdin Cotton Mills, like most cotton manufacturers and also like manufacturers in numerous other industries, have suffered from large scale cancellations of orders and from the return of merchandise by customers. Heretofore when cases arising under such conditions have been taken into the courts, the defendants have usually been able to show some defects in the goods to serve as a legal excuse for rejection. A piece of cotton cloth is never fully perfect. The possibility of imperfections, furthermore, is intensified during the period of feverish business conditions that usually precedes a slump in the market. At such times labor is not easily secured, and frequently the management, as a matter of expediency, avoids the observance of as rigorous rules of inspection as in ordinary times.

Does this contract provide adequate insurance to the Katahdin Cotton Mills against a large volume of cancellations and returned goods in the event of a sudden slump in the market in the future?[1]

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[1] According to newspaper reports the National Association of Sheet and Tin Plate Manufacturers, comprising about 25% of the manufacturers of sheet and tin plate goods in the country, announced a new contract in September, 1916, designed to eliminate cancellation of orders. This contract bound the buyers to take all orders placed or pay a penalty of 10% of the contract price.

In the clothing trade another plan of dealing with cancellations was adopted in April, 1919. This plan is described as follows in the press reports:

"The establisment of the Mutual Adjustment Bureau of the Cloth and Garment Trades through the activity of the American Association of Woolen and Worsted Manufacturers, will remove from the wool manufacturing industry an abuse that has persisted for many years. The unjust rejection and return of merchandise by certain classes of buyers has been an evil of considerable proportions. It had its origin partly in the absence of what might be called a standard for delivery and partly in an insufficient regard for the meaning of a contract.

"In approaching the problem of correcting this practice, the American Association recognized that, to be effective, machinery for dealing with it should be mutually maintained. After much consultation and careful study, the plan of the Mutual Adjustment Bureau was conceived. This organization will be controlled by a board of governors appointed by the American Association and the various organizations of purchasers of cloth. The plan has been accepted by the National Association of Clothiers, which has appointed its representatives. It is now under consideration by the cloak and suit trade and the jobbing trades. The methods under which the new organization will operate will be briefly, as follows:

"As the name implies, the Bureau is for the mutual advantage of the various branches of the trade and provides that merchandise shall be judged solely on its merits. It will at once prevent the unwarrantable return of merchandise by users and the imposition upon customers by manufacturers of cloth of inferior quality.

"The board of governors will appoint a director, who shall have such technical training, both from the point of view of the manufacturers of cloth and the buyer, as will enable him to pass impartially upon merchandise referred to the Mutual Adjustment Bureau for decision. His decision shall be made quickly and will be final, subject only to appeal to the board of governors.

"Mills will retain their adjusters as at present, and buyers their spongers, and the ordinary differences of opinion will be adjusted in the usual way; but whenever the mill's adjuster and the buyer's agent, generally the sponger, are unable to agree, the merchandise will automatically be referred to the Bureau.

"It is proposed to insert in the copy of order a clause providing for final adjustment by the bureau of disputes as to quality or condition of merchandise delivered. The mill, as the buyer, wishing to be fair, will have no hesitancy in submitting to the bureau. The customer not willing will be forced to the plan, because of his inability to buy merchandise except subject to this condition.

"The new bureau is expected to do three things for the different branches of the industry. For the cloth manufacturer it will impose a closer examination of merchandise at the mill and will result in the elimination of the return of merchandise without good reason.

"For the buyer, it will remove competition from the unscrupulous competitor who assumes no merchandise risk, but buys without regard to the significance of a contract, expecting later to reject or return merchandise he does not want.

"For the sponger, it inaugurates a new era in which he will be able to conduct his business as a legitimate merchant, recognized as a necessary part of the industry, no longer having to depend for his success upon rejecting merchandise and making returns for no better reason than that the principal for whom he does work requests it.

"The plan sets up an organization mutually supported to dispose of disputes in a speedy unbiased way. Its establishment should avoid legal actions and divert controversies to adjudication by responsible and capable machinery."

In a statement in the *Iron Age*, January 15, 1914, it was pointed out that manufacturers may also be to blame for cancellations in the iron and steel industry by selling heavily without due regard to the ability of the buyer to consume within the contract period. This statement gives the following quotation from a previous statement in the *Iron Age:*

"What is worse, manufacturers have sold without regard to their ability to deliver. They have also been known to fail on deliveries to contract customers, on a rising market, while accepting early delivery business from others who gladly paid a premium. There is no doubt, moreover, that the guaranteeing of prices against declines is an important item in the manufacturer's responsibility for present conditions. These guarantees are one of the evils chargeable against the early period of the consolidation regime in the steel industry. Buyers argued at that time that natural laws were to a large extent inoperative—meaning that the unrestrained competition that had previously prevailed was gone—and that the prices that were asked were in a sense artificial. To stimulate demand under such conditions, sellers booked large contracts to which guarantees were attached."

In addition to this quotation the following suggestion was made:

"The time seems opportune for a shortening of the sale period, say to three months for jobbing or merchant buyers, and to six months as a maximum for manufacturing consumers. In the exceptional cases in which manufacturing operations require yearly contracts, provision might be made, it has been suggested, for cancellations of unspecified tonnage by quarterly periods, with maximum and minimum amounts, the former not to exceed the latter by more than 25%. Shortening the contract period is the crux of the matter. That would go far toward eliminating the speculative buying that has been the arch disturber of contract relations." (*Iron Age*, January 15, 1914, p. 213.)

Other references on cancellations are: *Textile World Record*, May, 1915, p. 115; vol. 45, p. 210; vol. 47, p. 569. *Transactions National Association of Cotton Manufacturers*, No. 90, pp. 212–217; No. 91, pp. 252–257. *Iron Age*, May 23, 1912, p. 1266. *Iron Age*, February 1, 1912, p. 317. *American Machinist*, June 9, 1910, p. 1077. U. S. Department of Commerce, *Miscellaneous Series No. 34, The Men's Factory Made Clothing Industry*, pp. 247–250. U. S. Department of Commerce, *Miscellaneous Series No. 32, The Knit Underwear Industry*, pp. 144–145. *Daily News Record*, May 20, 1920.

# PART VII

## BRANDS, TRADE-MARKS AND ADVERTISING[1]

THE problems in this section illustrate some of the chief points in the determination of brand and trade-mark policies and in the formulation of advertising plans.

### 169. CHIPPEWA COMPANY—ESTABLISHING DEMAND

The Chippewa Company is organized to manufacture automobile parts, such as bearings, which are patented. What does the company have to consider in deciding whether or not to undertake to establish a reputation for its product among consumers as well as among automobile manufacturers?

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[1] References on brands and trade-marks: Edward S. Rogers, *Good Will, Trade-Marks, and Unfair Trading* (bibliography). P. T. Cherington, *Advertising as a Business Force.* Continental and Commercial Banks, Chicago, *American Trade-Marks Abroad. Printers' Ink.*

References on advertising: P. T. Cherington, *Advertising as a Business Force* and *Advertising Book—1916.* Melvin T. Copeland, *Business Statistics.* D. Starch, *Advertising.* H. L. Hollingworth, *Advertising and Selling.* J. B. Opdycke, *Advertising and Selling Practice.* J. L. Mahin, *Advertising—Selling the Consumer.* Curtis Publishing Company, *Selling Forces.* W. A. Shryer, *Analytical Advertising.* H. Tipper, *Principles of Advertising.* H. Tipper, G. B. Hotchkiss, H. L. Hollingworth, and F. L. Parsons, *Advertising, Its Principles and Practice.* A. P. Johnson, *Library of Advertising*, 6 volumes. E. E. Calkins, *The Business of Advertising.* H. W. Hess, *Productive Advertising. Printers' Ink. Advertising and Selling.*

## 170. JACKSON BROTHERS—ESTABLISHING DEMAND

Jackson Brothers, a firm located in a city in the Middle West, manufacture brass founts for oil stoves. Their product is not patented; it is sold entirely to oil stove manufacturers. What factors must this firm consider in deciding whether or not to undertake to establish an individual reputation for its product among consumers who use oil stoves?

## 171. BERKELEY SHOE COMPANY — USE OF BRANDED PARTS

In 1916 the Goodyear Rubber Company commenced a wide campaign for the sale of Neolin soles.[1] This product was branded, and an extensive advertising campaign to consumers was undertaken. About the same time other manufacturers also put fibre soles on the market.

The Berkeley Shoe Company, producing men's shoes of medium quality sold under the manufacturer's brand direct to retail merchants, had occasion to consider whether it should use branded fibre soles in its product.

Assuming that the fibre soles were durable, was it advisable for this manufacturer to use branded fibre soles?

To meet the competition of fibre soles, one of the large tanners started an advertising campaign for branded leather soles. In how far should the same factors govern the decision of the Berkeley Shoe Company regarding the use of branded leather soles as in deciding upon the use of branded or unbranded fibre soles?

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[1] C. R. Johnson, "Was Shortage of Raw Material Capitalized in Neolin Advertising?" *Printers' Ink*, May 3, 1917, pp. 3–12.

## 172. MERRIMAC FLOUR MILLING COMPANY—COOPERATIVE SALES PLAN

The Merrimac Flour Milling Company, with a plant of 2,200 barrels daily capacity, located in Minnesota, is requested to join with five other Minnesota mills in the organization of a cooperative selling agency. The daily capacities of the other mills are as follows:—Mill A, 2,500 bbls.; Mill B, 2,700 bbls.; Mill C, 900 bbls.; Mill D, 1,200 bbls.; Mill E, 1,800 bbls.

These mills heretofore have sold their products unbranded through agents and direct to wholesalers and bakers. These bills, including the Merrimac Company, have yielded average profits.

The proposed plan provides for the incorporation of the selling agency with a nominal capital of $60,000 in six shares of $10,000 each. Each mill is to have one share. The selling agency is to be managed entirely by a board of six directors, one from each mill. This agency is to have complete control over the marketing of the entire product of the mills. An advertised brand is to be developed, and in addition to the central office in Minneapolis branch offices will be opened in New York and Boston, other branches to be added as the growth of the business warrants. The management of each mill, including the purchasing of raw material, is to remain in the hands of its present owners. After paying dividends at the rate of 6% per year on the capital stock of the selling agency, profits are to be divided in proportion to the capacities of the mills.

Should the Merrimac Flour Milling Company enter the proposed organization?

## 173. MUSKEGON COMPANY—GOOD-WILL

The Muskegon Company manufactures a high quality food product that is widely advertised. Because of the risk of possible embarrassment to the plans of the company for which this name is assumed, it is impractical to describe the product exactly.

In the manufacture of this product one of the chief materials is A, and the product has been sold in all parts of the United States as the AC product of the Muskegon Company. The supply of material A is limited and highly irregular from year to year.

Another material, B, could be used in place of material A without the least injury to the product. If that were done, however, the product could not be sold as the AC product, because of the pure food laws. The supply of material B is large and regular. The company has a large stock of material B on hand, acquired for other purposes for which it cannot now be used. From the consumer's standpoint, there is no difference in the quality of the product whether material A or material B is used. From the production standpoint, the company would be assured of greater regularity in the operation of its plant, if it were able to use either material A or material B at its option. A large amount of good-will is attached to the brand of the AC product.

Should the Muskegon Company introduce a new brand for the product made from material B and continue the AC product, or should it introduce a new brand, in the manufacture of which both A and B could be used, thus superseding entirely the AC product? Or should it solve this problem in some other way?

## 174. GREENWOOD AND DAY—PACKING HOSIERY

The following statement was issued October 1st, 1918, by the Conservation Division of the War Industries Board:

To Hosiery Manufacturers:

In the present emergency it is of primary importance that the country's resources be used to full advantage and that we husband our supplies of material, equipment and capital to aid in carrying on the war. In addition, it is imperative to conserve every available cubic inch of car carrying capacity. The Conservation Division of the War Industries Board, in cooperation with various industries, has already put into effect plans of economy in packing in order that materials and railroad equipment can be saved and the number of available freight cars be increased to assist in furthering the war program.

It appears that manufacturers of hosiery can materially reduce the bulk of their freight packages by substituting the paper bundle for the cardboard box. The enclosed program has been drawn up with the assistance and advice of representatives of all branches of the industry. It will be made effective as it is now issued unless substantial reasons are immediately presented to show that by some modification the needs of the government can be met more effectually.

In putting the provisions of this program into effect it is, of course, essential that care be exercised in the packing of all merchandise for shipment, not only to reduce the amount of space in freight packages, but adequately to protect the goods from danger of injury in transit. For instance, we would suggest the use of No. 1 sulphite wrapping paper of not less than 50 lbs. (24x36, 480 sheets to the ream), for the wrapping of packages of one-half dozen and dozen suits of underwear. For the wrapping of hosiery up to and including one dozen pairs to the package, not less than 40 lb. wrapping paper should be used. Where necessary to protect the merchandise from injury, cardboard inserts should be used in paper packages.

While this schedule is not operative until January 1, 1919, it is understood that all manufacturers will put it into effect as rapidly as possible. We shall be glad to receive any suggestions that you may have to submit whereby greater economies can be brought about.

Will you please acknowledge receipt of this letter and schedule promptly, assuring this Division of your loyal and wholehearted cooperation, which will aid materially in carrying out the war progam.

Conservation Division,
274-6600 War Industries Board.

### SCHEDULE FOR PACKING HOSIERY

1. All 84 needle and 100 needle gauge cotton hose and half hose *to be wrapped in paper bundles*, without cardboard, one dozen pairs to a bundle.

2. All cotton half hose 198 gauge or under and all cotton half hose weighing more than 1 lb. 8 oz. per dozen, and selling up to $3.00 per dozen at the mill *to be wrapped in paper bundles* with or without cardboard.

3. All ladies' cotton hose 198 gauge or under and weighing over 1 lb. 12 oz. per dozen and selling up to $3.25 per dozen at the mill *to be wrapped in paper bundles* with or without cardboard.

4. All goods commercially known as "out sizes" or "extra sizes" *to be wrapped in paper bundles,* one dozen pairs to the bundle, or in cardboard boxes one dozen pairs to the box.

5. All other cotton, lisle and mercerized ladies' hose and half hose *to be wrapped in paper bundles,* one dozen pairs to the bundle, or *packed in cardboard boxes,* one dozen pairs to the box.

6. All infants' cotton, silk, lisle and cashmere socks and stockings selling up to $3.00 per dozen at the mill *to be packed in boxes,* not less than one dozen pairs to the box.

7. All infants' cotton, silk and lisle and cashmere socks and stockings selling at over $3.00 per dozen at the mill *to be packed in boxes,* not less than one-half dozen pairs to the box.

8. All misses' and boys' cotton ribbed and flat hosiery selling up to $3.00 per dozen on 8″ at the mill *to be wrapped in paper bundles,* one dozen pairs to the bundle.

9. All misses' and boy's cotton ribbed and flat hosiery selling at $3.00 per dozen on 8″ and up to $4.00 per dozen on 8″ at the mill *to be packed in boxes,* one dozen pairs to the box.

10. All misses' and boys' cotton ribbed and flat hosiery selling at $4.00 per dozen on 8″ and over at the mill *to be packed in boxes,* one-half dozen pairs to the box.

11. All silk and artificial silk hosiery selling at less than $5.00 per dozen at the mill *to be packed in boxes,* one dozen pairs to the box.

12. All silk and artificial silk hosiery selling at $5.00 per dozen and up to $12.00 per dozen at the mill *to be packed in boxes,* not less than one-half dozen to the box.

13. All merino, wool and worsted half hose 120 needle gauge and under, and all others weighing over 1 lb. 10 oz. per dozen and selling up to $6.00 per dozen at the mill *to be wrapped in paper bundles,* one dozen pairs to the bundle.

14. All merino, wool and worsted half hose, over 136 needle gauge and selling at $6.00 per dozen or more at the mill *to be packed in boxes,* one dozen pairs to the box.

15. All ladies' and children's merino, wool and worsted hosiery selling up to $6.25 per dozen at the mill *to be packed in boxes,* one dozen pairs to the box.

16. All ladies' and children's merino, wool and worsted hosiery selling at $6.25 per dozen or more at the mill *to be packed in boxes*, not less than one-half dozen pairs to the box.

17. All seconds of men's, women's, children's, and infants' hosiery selling up to $6.00 per dozen at the mill *to be wrapped in paper bundles*, one dozen pairs to the bundle.

18. All seconds selling for $6.00 per dozen or more at the mill *to be packed in boxes*, one dozen pairs to the box.

19. All hosiery packed in boxes *to be packed not less than four pairs to the box.*

20. When packed in bundles, sufficient quantity and strength of paper to be used completely to enclose the hosiery. The bundles to be properly secured with either gummed strips or twine of sufficient strength to insure the safe arrival of the bundles at destination.

21. All boxes to be made in the smallest dimensions possible; merchandise to fill the boxes completely.

22. All box flies to be eliminated.

23. The use of wrapping paper for packing hosiery, when packed in boxes and then in cases for shipment, to be eliminated.

24. Cases used in packing bundles or boxes for shipment to be filled completely with merchandise and all waste space to be eliminated.

25. Wooden cases to be made with solid or closely fitted side-ends, top and bottom securely fastened. Wooden cases of unusual size for carrying unusual weight to be stripped or reinforced by cleats.

26. Fibre boxes, when used, to comply with standard railroad classification requirements.

Greenwood and Day, a firm of dry goods wholesalers in an Eastern city, agreed to carry out this schedule with the trade because of war conditions. They made the agreement, however, with deep reluctance. The sales of this firm in all departments were over $1,250,000 a year. Hosiery was a substantial item in their sales. Two-thirds of the hosiery that they sold was put out under their own brands.

Why was this firm reluctant to adopt this schedule?

## 175. VICTOR COMPANY—RELATION OF LABOR POLICIES TO SALES POLICIES

The Victor Company operates a factory in a city in Ohio for the manufacture of workmen's overalls. The company plans to expand its market, and for this purpose contemplates an extension of its plant. Up to the present time, because of the personal views of the general manager of the company, its plant has been operated as an open-shop. Employees have been free to join a trade union, but the union has not been recognized in collective bargaining. A demand for the recognition of the union has recently been presented by a portion of the employees.

How will the decision of the management on the recognition of the union influence the company's sales policies?

## 176. KNIGHT & COMPANY—ROYAL FLOUR MILLS—BRANDS

The Knight brand of flour is a private brand of Knight & Company, Boston wholesalers, for whom the flour is manufactured by the Sparrow Flour Mills in Minnesota. This brand of flour is advertised and sold widely in New England. It is said to be very similar to the Royal brand of flour which is manufactured by the Royal Flour Mills in the same district in Minnesota in which the Sparrow mills are located. The Royal brand is advertised nationally.

Is there any reason why the consumer in New England should favor one of these brands as against the other?

### 177. DIAMOND STOVE COMPANY—WHOLESALER'S BRANDS

The Diamond Stove Company operates a medium-size factory for the manufacture of oil stoves. The entire output of the plant is sold to 15 to 20 wholesalers under the wholesalers' private brands. There are minor variations in the product manufactured for each wholesaler with the result that 92 sizes and types of stoves are made. Of several large competitors selling their products under manufacturers' brands, each produces 12 to 25 types and sizes.

What is to be said in favor of the policy of the Diamond Stove Company? What are its drawbacks?

### 178. ALLAGASH COMPANY—WHOLESALERS' BRANDS

The Allagash Company, manufacturing edge tools of good quality, has been selling its product to wholesalers unbranded or bearing wholesalers' brands. Such brands as have been used have not been given much significance on this product. The Allagash Company has received an offer from a strong wholesale hardware company to take the entire product of the Allagash Company for a period of three years to be sold under the wholesaler's brand. The price that is offered is satisfactory. The wholesaler's brand that is to be used on these tools is the same brand that is applied to a wide variety of other articles.

Should the Allagash Company accept this offer?

## 179. OSWEGO PAPER COMPANY—FOREIGN TRADE BRANDS

The Oswego Paper Company has a large domestic business and during the war it also had a substantial volume of export orders, particularly from South America. For several years the company accepted orders from export houses in New York. These export houses insisted upon the use of their private brands on this paper. In the domestic trade the company has sold its product to jobbers entirely under its own brand, but in order to obtain a share in the foreign business it accepted these orders under the conditions prescribed by the export houses. The Oswego Paper Company found that it was forced to bid on all reorders because of the control of the trade-marks by the export houses.

It was proposed that a new export company should be established for which the Oswego Paper Company should provide a large portion of the capital with the definite understanding that this export company would sell the product of the Oswego Paper Company under the Oswego trade mark.

Should the Oswego Paper Company have accepted this plan?

## 180. SAGINAW SOAP COMPANY—FOREIGN TRADE BRANDS

The Saginaw Soap Company manufactures scouring soap for sale under its own trade-mark in the United States. Recently the company received several orders from importers in South America. These importers, however, insisted upon the use of their own private brands on this soap. The soap is of good quality and can hold its own in competition on either a price or a quality basis.

Should the Saginaw Soap Company have accepted these orders from South American importers under these conditions?

## 181. BROADWAY DEPARTMENT STORE—PRIVATE BRANDS

The Broadway Department Store in New York City operates a shoe department in which the annual sales are $850,000 a year. As a matter of policy, this store sells only shoes that bear its own name or that are unbranded. It places large orders with manufacturers who advertise their own trade-marks, but the Broadway Store refuses to have the manufacturers' trademarks on the shoes that it purchases. The purchase prices are about the same for the private-brand shoes as for shoes bearing the manufacturers' trademarks. The Broadway Store also buys from other manufacturers who make only retailers' and wholesalers' private-brand shoes.

The Broadway Store sells both high-price and medium-price shoes. It seeks to keep abreast of style changes. The Broadway Store also gives constant attention to the development of new lasts that will better meet the needs of its customers.

Is the Broadway Store justified in its adherence to this private-brand policy?[1]

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[1] A statement of the views of several merchants on retailers' private brands is given in *Printers' Ink*, March 27, 1913, pp. 108–112.

## 182. NIAGARA CLOTHING COMPANY—RETAILERS' BRANDS

The Niagara Clothing Company, Rochester, New York, which manufactures men's clothing of good quality, has adopted the policy of selling its product to retailers to be sold under the retailers' private labels. The entire output of this company is disposed of in this way.

How does this policy affect the selling problems of the Niagara Clothing Company?

## 183. UNITED STATES RUBBER COMPANY—BLANKET TRADE-MARK

According to a statement in *Printers' Ink* in 1916,[1] the United States Rubber Company had decided to adopt a blanket trade-mark[2] to be used on the products of its subsidiary companies. It was stated that this trade-mark was to resemble a ribbon composed of three stripes of equal width, the one in the center being white and the other two blue. The seal of the United States Rubber Company or the trade-mark of the particular product being advertised or sold was to be superimposed on the ribbon. The size of this new trade-mark was to vary according to the product on which it was used. It was stated that the trade-mark would appear in so far as possible on the goods themselves and also on the packages. It was to be used, furthermore, in some way in all the advertising of the United States Rubber Company.

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[1] *Printers' Ink,* March 30, 1916, pp. 25–27.

[2] Armour & Company developed the "Over Label" as a blanket trade-mark for many of the Armour products. *Printers' Ink,* January 23, 1913, pp. 3–10; February 27, 1913, pp. 3–8. The N. K. Fairbank Company, on the other hand, which manufactures Snow White, Fairco and Boar's Head for shortening, Cottolene, a cooking fat, Covo, a salad oil, Gold Dust, Fairy Toilet Soap, Fairy Flakes, Pummo hand soap, Glycerine tar soap, Polly Prim scouring soap, Sunny Monday, Santa Claus, Clairette, Dandy, Ark, Mascot, and Chicago Family laundry soaps, has avoided the use of a blanket trade-mark and has not sought to identify these products with the name of the company manufacturing them. *Printers' Ink,* June 12, 1919, pp. 17–18. Other references on the use of the blanket trade-marks are *Printers' Ink,* February 25, 1915, pp. 41–56; August 19, 1915, pp. 3–8, 85–91; February 1, 1917, pp. 3–8, 95–105; July 10, 1919, pp. 3–6, 141–146.

It was stated that at that time the United States Rubber Company had allied with it about fifty subsidiary concerns which manufactured a group of products each using a variety of well-established trade-marks. Over one thousand separate articles were manufactured, including automobile tires, footwear, gloves, bicycle tires, bathing caps, and many others.

What advantages might be expected to accrue to the United States Rubber Company from the adoption of this policy? What apparently would be the obstacles to be overcome in making it successful?

## 184. EQUALITY RUBBER COMPANY—BLANKET TRADE MARK

The Equality Rubber Company has recently been organized with a capitalization of $1,000,000 to manufacture automobile tires and other rubber products. The company has made arrangements which assure it of an adequate supply of raw material and has commenced the construction of its manufacturing plants. It has not yet, however, determined upon its brand policy.

Is it probable that the Equality Rubber Company will find it advantageous to adopt a single trademark for all its products?

## 185. VIRGINIA STOVE COMPANY—SELECTION AND REGISTRATION OF TRADE-MARK

The Virginia Stove Company has been engaged for twenty-five years in the manufacture of stoves and ranges. The company's products, which have been sold in Virginia and neighboring states, have borne the name-plate of the company as a trade-mark. This company recently has decided to engage in the manufacture of electric stoves, heaters, and irons. One of the problems is the selection of a trade-mark for these new products.

What points must be considered in making the selection of a trade-mark?[1] What benefits would accrue from having it registered?

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[1] P. T. Cherington, *Advertising as a Business Force*, pp. 331–378. Edward S. Rogers, *Good Will, Trade-Marks, and Unfair Trading*. J. H. Carnes, "Things Often Misunderstood in Connection with Trade-Marks," *Printers' Ink*, July 10, 1915, pp. 47–56. R. W. Johnson, "Why Should a Trade-Mark be Registered?", *Printers' Ink*, April 29, 1920, pp. 60–65. A. B. Remick, "Why Trade-Marks Should be Registered," *Printers' Ink*, May 18, 1916, pp. 111–114.

## 186. NARRAGANSETT WHOLESALE GROCERY COMPANY —METHOD OF ACCOUNTING FOR ADVERTISING EXPENDITURES

In the System of Operating Accounts for Wholesale Grocers published by the Harvard Bureau of Business Research, the following statement is made regarding interest on the net investment in the business:[1]

> Every business should yield the owner interest at a fair rate on the capital invested. This interest charge should be reckoned as one of the items of expense.
>
> The debits to this account (interest on capital-owned), made at inventory time, are for interest on the net investment in tangible property in the wholesale business, exclusive of realty. The rate of interest is that received on reasonably secure, long-term investment in the section where the business is located. The net investment on which interest is charged excludes owned realty, because the charge for realty is included in *Rent.* Besides realty, net investment also excludes good-will in any form. Ordinarily the net investment in a wholesale grocery business, on which interest is charged, is the difference between the sum of the assets—cash, merchandise on hand and equipment at depreciated value, notes and accounts receivable, and prepayments (such as prepaid insurance), and the sum of the liabilities—notes and accounts payable and accrued items.
>
> If the business is incorporated, the method of determining the net investment is the same. Stock, authorized or issued, is excluded for it has no effect on the net investment of the business.
>
> This account is credited with interest received on bank balances and interest collected on overdue accounts; preferably these items are kept separate during the period and closed into this account at inventory time. If interest on overdue accounts is added to customers' invoices, the amount collected is credited here and not included in Net Sales. The balance of this account is the entry on the Profit and Loss Statement for expense for interest on capital owned. All debits to this account are at the same time credits to Interest and Rentals Earned.

Should this statement be modified to include in the investment any expenditure for advertising?

Take the Narragansett Wholesale Grocery Company for example, which spends about $31,000 each year at the present time in advertising its specialties and in "dealer helps." The annual sales of the company are about $2,300,000.

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[1] Bureau of Business Research, Harvard University, *Bulletin No. 8, System of Operating Accounts for Wholesale Grocers*, p. 21.

What specific portion, if any, of this expenditure for advertising should be included in the investment of the Narragansett Wholesale Grocery Company?[1]

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[1] The following editorials were published in *Printers' Ink:*—

"Sales practices in the automobile business do not vary much. The 'stunts' are few. Selling cars is a question of finding prospects and going after them in person. After the goodness of the car, and the goodness of the advertising, it is a question of organization, sales personnel, sales management. And so the stimulation, and, better still, the permanent invigoration of the force, is an important accomplishment.

"The theory and its applications are reflected in the results. The latter show how far the management are theorists and nothing more. It is interesting to learn, as we do from a stock circular through which the Chalmers Motor Company asks $1,500,000 fresh capital, that the original investment in the business was $300,000 and that 'all of its present tangible assets of $6,900,386.54, with the exception of the $1,500,000 preferred stock, have been acquired entirely out of surplus earnings.'

"It is interesting in this regard to observe the experience of the National Biscuit Company, also a large advertiser. The latter is said, in a market report, never to have issued any securities to finance its growth since its organization. The business, on the contrary, has been so successful that it has been thought wise, according to the same report, to let a large amount of its earnings go into property or miscellaneous equities and not have them show up in the income account.

"In view of the large part played by advertising, patents, trademarks, good will and other like claims on popular esteem in promoting these two concerns the uninformed would look with interest to see the valuation set down against these in the general balance.

"The result might be mystifying. He would find that the Chalmers Company summed these all up at just $1, despite the fact that they have a book value of more than $350,000 and a net tangible value according to an appraisal company of more than $550,000.

"No notice whatever is taken of good will, advertising, brands, etc., in the National Biscuit published balance.

"This excess of modesty may be and perhaps is good practice from a banking point of view, but it is advertising's misfortune, because it minimizes or ignores advertising's part in the success of the institution.

"The practice of another industrial concern and large advertiser, the Agricultural Chemical Company, is different. Its patents, brands, trade-marks, etc., are valued at some $15,000,000. Says Treasurer Thomas A. Doe in a letter to *Printers' Ink:*

" 'The figures are not the result of an exact or scientific basis of estimate, but originally represented the actual cost to this company, represented practically entirely by common stock. From the original amount at which these assets were carried arbitrary reductions have been made as the business or conditions warranted. These assets, although intangible, had and have intrinsic value. Nevertheless, it has been the policy of the company to reduce the amount from time to time when found advisable.'

"There may be some difficulty in arriving at definite figures in any given case, but it would unquestionably be better for advertising if it were done." *Printers' Ink*, September 18, 1913, pp 83-84.

"The collar and shirt business of Cluett, Peabody & Co. is one of the largest—if not the largest—in the world. Its profits for the last four years are certified to be as follows:—

| | |
|---|---|
| 1909 | $1,284,809 |
| 1910 | 1,587,338 |
| 1911 | 1,602,763 |
| 1912 | 1,741,243 |

"These interesting figures of a notable industrial success come out in connection with the turning of the company into an $18,000,000 corporation and the familiar procedure of selling preferred stock to the public. It is obvious that a very large proportion of the assets against which this heavy flotation is made consists of what is known as 'good will.' Just how large the proportion is the company has not seen fit to declare, for the balance sheet presented to prospective investors shows 'good will' lumped in with various other items as follows:

" 'Real estate, buildings, machinery and equipment at Troy, Rochester and Corinth, N. Y.; South Norwalk, Conn., and Leominster, Mass.; together with good will, patent rights, trade-name, etc., $20,840,948.50.'

"The reasons the company did not choose to itemize separately its very important item of 'good will' are left to inference. Certainly there is nothing about it to be ashamed of, for it indicates an able and aggressive management. There has, however, been a tendency in Wall Street circles to criticise recent industrial flotations, where the good will was heavily capitalized, such as, for example, the $50,000,000 of good will in the Woolworth Company, and the $57,000,000 of good will in the B. F. Goodrich company. Bankers, financiers and economists of course recognize that there is such a thing as good will and that it frequently has enormous cash value. Yet when they encounter it in a balance sheet, their disposition is to 'throw it out.' Now this whole subject interests *Printers' Ink* constituency intensely, because 'good will' is the accumulated result of intelligent advertising. That the Cluett, Peabody business has been ably advertised is sufficiently shown by the impressive figures of earnings printed at the head of this article. The direct testimony of President F. F. Peabody on this point, will be generally accepted as conservative and well within the facts. He says:

" 'The "Arrow" Brand is a familiar one in every household; from school boy and college man to elderly men in every profession. It is well and favorably known, because of the enormous amount of money that has been expended in presenting it to the public continuously for the past sixteen years.' " *Printers' Ink*, February 27, 1913, p. 96.

## 187. ALBATROSS PAPER COMPANY—BRAND DEVELOPMENT

The Albatross Paper Company manufactures bond paper and ledger paper on a large scale. Its output is sold entirely to jobbers who in turn sell to printers and other users of this kind of paper, such as blank-book manufacturers. About 40% of the mill's output is sold under the mill's water mark; the remainder is sold under jobbers' marks. Altogether several hundred marks are placed upon the paper that this company manufactures.

Each jobber may use several marks for the different grades and weights of paper. The paper bearing any one mark of a jobber may be made in competing mills. This enables a jobber to secure price advantages, even if he does not neglect quality. The Albatross Paper Company sells to about two hundred jobbers.

From the production standpoint the diversity of marks is uneconomical. While the dandy rolls, by means of which the water mark is imprinted in the paper, are being changed, a machine cannot produce salable paper. This is the "neck of the bottle" and slows up the entire plant. For each mark a different dandy roll is used.

If production were concentrated on the mill's own water marks, furthermore, it would be possible to secure longer runs on a few sizes and weights. The jobbers' business involves not only different marks, but also a large variety of sizes and weights of paper. It is estimated that, if the production could be concentrated on the mill's own marks, there would be a saving of at least 10% in manufacturing costs.

The Albatross Paper Company thus has an incentive from the production standpoint to develop its own marks more extensively, unless the obstacles render such a policy impractical.

One of the large competitors of the Albatross Paper Company is the Commodore Manufacturing Company, which produces a lower grade of sulphite bond. The Commodore Manufacturing Company has established its own mark. It did this by advertising its mark, thus gradually building up a demand which finally sufficed to cover the entire output of the company's mill. The Commodore Manufacturing Company encountered serious opposition from the jobbers when it eliminated jobbers' marks. Some of the jobbers at first refused to sell its paper. Now its output is distributed entirely through jobbers without any system of exclusive agencies. The Commodore Manufacturing Company dominates the market for its grade of bond paper.

Some paper mills hitherto have undertaken to sell their products direct to wholesale consumers. Immediately all the paper jobbers in the United States have refused to handle the products of these mills. These experiments have indicated that it is not profitable to establish wholesale branches to sell the output of one paper manufacturer. Each jobber sells all kinds of paper, including not only bond and ledger paper, but also book paper, coated paper, wrapping paper, and numerous other varieties. The jobber's gross profit is 20% to 25% of his selling price. The jobber carries a stock and his salesmen cover a large territory. His expenses are so high that there is no reason for believing that the jobber is receiving an abnormally large net profit. The terms on which paper is sold by the mills to the jobbers are 3% thirty days, net sixty days.

All the jobbers have their own marks on every grade of paper that they sell. The largest market for paper, such as the Albatross Paper Company manufactures, is in the large cities, but substantial quantities are sold in the smaller cities and towns. Consequently wide distribution is essential.

Most of the competitors of the Albatross Paper Company are manufacturing only jobbers' marks.

The Albatross Paper Company has been advertising its mark in the Saturday Evening Post and similar mediums. Its sales have been increasing gradually. Until recently two of the largest jobbers in the United States have refused to carry the Albatross mark. At the present time only one jobber in a town is selling paper bearing the Albatross mark. Jobbers still refuse to handle it unless given exclusive agencies.

The Albatross Paper Company cannot afford to make any heavy increase in its advertising appropriation at the present time. The advertising appropriation for the current year is $250,000. If the jobbers' marks were to be thrown out suddenly by the Albatross Paper Company, the company would not be able to keep its plant in full operation.

Should the Albatross Paper Company seek to develop further its own marks? If it is to develop its own marks, what policy should it adopt for advertising and distribution?

## 188. SARANAC FOUNTAIN PEN COMPANY—RELATION OF ADVERTISING TO SALES

The Saranac Fountain Pen Company for some years specialized in the production of fountain pens to be sold at a retail price of $1.50. These pens were widely advertised, and the price was a conspicuous feature of all the advertising. The company stated that its specialization enabled it to produce a pen of good quality for sale at this price. The product, therefore, was sold on price, but it had merit.

Several years ago, the Saranac Fountain Pen Company decided to add two new lines of pens, of better quality, to be sold under the same name. The prices for these new grades were $2.50 and $3.00.

One of the main objects of the company in offering these new grades of pens was to secure a larger volume of business for their salesmen. About one-half of the time of the salesmen was spent actually in selling and the remainder in traveling. If a larger volume of orders could be secured during the time that the men were engaged actually in selling, it would mean a substantial reduction in salesforce expense.

When these new grades of pens were offered, they were advertised widely, but there was no diminution in the advertising of the pens sold at $1.50. Retail dealers placed large orders for the $2.50 and $3.00 grades of pens during the first year. These pens sold slowly, however, in the retail stores, and the volume of repeat orders during the next two years was small. No complaints of any consequence were reported to the company from the trade. Therefore, the company assumed that there was no dissatisfaction with the quality of the product.

During the first year after the new grades of pens were offered for sale, the sales of the $1.50 pens increased 30%; in the second year these sales increased 33%; and in the third year 25%.

What probably were the causes that produced these results in the sales of Saranac pens?

### 189. COHASSET MANUFACTURING COMPANY—SALES PLAN

The Cohasset Manufacturing Company has a plant for wood-working. This plant is located in a manufacturing city in Eastern Massachusetts. Inasmuch as the business of this company had not been sufficiently profitable, the company decided in December, 1919, to undertake the manufacture and sale of a new class of products. These products were porch trellises, garden trellises, art fences, and other garden specialties. The company intended to start with five articles. These include three sizes of garden trellises to sell at $5, $10, and $15 each, one design of porch trellis to be used for trailing vines, and one other article. All these articles were to be designed with a view to beauty, to be built of high-grade materials with first-class workmanship. They were to be painted with the best white paint available.

The Cohasset Manufacturing Company proposed to sell these articles by sending solicitors from house to house to canvass for orders. The company was of the opinion that sales could be made most effectively at the homes of the potential customers. In the second season the company planned to do some advertising, but it had not decided at the outset whether to use direct mail advertising or magazine advertising.

In order for the business to show a profit, it was estimated that it would be necessary to sell from 75 to 100 articles each day. It was estimated, furthermore, that this would require from ten to fifteen solicitors. It was planned to pay 20% commission to the solicitors.

The company was small and the proprietors had a good understanding of all wood-working methods. They had a railroad siding at the plant and a good labor supply.

The company had sufficient capital, in December, 1919, to obtain the necessary machinery and to furnish the funds for purchasing lumber and paying operating expenses for perhaps two months, beginning manufacturing operations the first of January. The capital was not sufficient to warrant sending out salaried salesmen without guaranteed sales. The capital of the company would have been seriously depleted, if it had sent out two high-priced salesmen on a salary basis who were not successful in obtaining orders.

It was proposed to send representatives of the company into a town to solicit orders and then for towns within 100 miles of the plant to make deliveries with a light truck. To towns at a greater distance, it was proposed to make bulk shipments that would be distributed by a truck to be hired in the town. Whenever only a few sales were made in one town, individual shipments were to be made direct to the buyers. A rigid policy was to be established for collection upon delivery.

The president of the company stated: "We do not feel that we can afford advertising the first year, unless our efforts at the opening of the season meet with enough success to supply the necessary funds. In this case we would start with the *Saturday Evening Post*, but would want plenty of stock on hand in order that we might not lose any benefits that might come from our advertising. We are much in doubt, however, as to whether magazine or direct mail advertising would be our best medium."

The company intended to produce an article of high merit. The price charged was to be sufficient to permit the use of first-class materials and first-quality workmanship. The company expected that its manufacturing and delivery costs would be about $3.50 per article, its selling cost $3.00 per article, and selling price $15.00. This price would be fully as low or lower than the price for which the same article could be made in a carpenter's shop. It was expected that the sales would be made chiefly to the middle and wealthy class of customers who could afford to purchase such articles at this price. As an accommodation, the company also planned to undertake to design and manufacture special articles, but its efforts were to be concentrated mainly on the standardized lines.

Were the sales plans of this company sound? What modifications, if any, should have been recommended?

## 190. HEMATITE CONVEYOR COMPANY—ADVERTISING PLANS

The Hematite Conveyor Company is one of the large manufacturers of hoists and conveyors for industrial and mercantile plants. The products of the company are patented and are adaptable to widely varying requirements. The company operates fourteen sales branches and service stations. The service department advises prospective customers as to the sort of equipment best suited to their individual needs. This service department is under the sales manager and works closely with the salesforce.

A separate advertising department has not been maintained. For traditional reasons, the advertising is in charge of the treasurer of the company whose other duties now require the major portion of his attention. Consequently the advertising of the Hematite Conveyor Company is handled spasmodically and usually by subordinates with little supervision. At frequent intervals, for example, a subordinate employee is told to send out a circular letter to a list of 2,000 prospective customers. The list and the letter when prepared are given more or less perfunctory approval by the executive in charge.

A brief investigation by an outside party has indicated that the funds thus spent for advertising by this company are yielding almost no results. What would appear to be the most practical plan for reorganizing the advertising work of the company? Should an advertising agency be employed? What are the chief points to be provided for in planning a systematic advertising campaign for the Hematite Conveyor Company?

## 191. SUSQUEHANNA MANUFACTURING COMPANY—SALES AND ADVERTISING PLANS

The Susquehanna Manufacturing Company recently faced the problem of deciding upon the retail outlets for a new product and the effect of its solution upon the advertising plans of the company.

Up to the time that this problem arose, the Susquehanna Manufacturing Company had been manufacturing tools and similar articles sold in retail hardware stores. The company had a well-established sales organization for selling direct to retailers. The prestige of its products was well established with the hardware trade.

The company decided to add a line of safety razors to its other products. The question then arose as to whether the company should undertake to have its brand of safety razors sold through retail stores outside of the hardware trade. What was to be said for and against a policy of seeking retail outlets other than hardware stores?

The products that the company had previously manufactured had been advertised in trade papers and by means of displays in the retail stores that sold these articles. How would it be necessary to modify the advertising plans of the company, if it were decided to sell the safety razors through new retail channels as well as in hardware stores?

## 192. Plymouth Dye Company—Advertising Mediums

The Plymouth Dye Company manufactures soap dyes. These dyes are suitable for use by the housewife in her home. The company already has wide distribution of its product through unit stores. Its advertising for the coming season, therefore, is to be aimed at intensifying the demand for Plymouth dyes in the national market.

What types of advertising mediums appear to be best suited for this advertising campaign?

## 193. JACKSON MANUFACTURING COMPANY—ADVERTISING MEDIUMS

The Jackson Manufacturing Company recently has added evaporated milk to the group of food products that the company manufactures. The evaporated milk is to be known as the "Ajax" brand. The company seeks national distribution for this new product. It is to be distributed through wholesalers to unit stores.

What types of advertising mediums are likely to prove serviceable in the campaign of this company?

## 194. PETREL MOTOR COMPANY—ADVERTISING MEDIUMS

The Petrel Motor Company manufactures detachable motors for small boats. This company distributes its motors through retail stores and also fills mail orders from customers who cannot obtain the motor at their local stores.

The Petrel motors have been thoroughly tested and the company is convinced that they will render satisfactory service. The Petrel Motor Company has not advertised extensively heretofore. The company has ample financial resources for an advertising campaign, a good salesforce, and its factory is equipped to supply a large demand.

What types of advertising mediums should be given serious consideration in planning the advertising campaign for Petrel motors?

## 195. ROBINHOOD FLOUR MILLS—ADVERTISING MEDIUMS

Knox & Brown, advertising agents, handle the account of the Robinhood Flour Mills. In order to stimulate a demand for this flour in Greater Boston, an investigation was made of the distribution of the product and of the intensity of the demand in all parts of the city and in its suburbs. With the exception of one district, this investigation indicated that a large portion of the retail grocery stores carried Robinhood flour. There also appeared to be a strong demand in all sections, with this one exception, where a substantial demand might be expected. The district that was the exception was in a residential section in which a large number of apartment houses were located. In that district few stores had Robinhood flour in stock—chiefly, they stated, because they received few orders for it.

What form of advertising probably will prove to be best adapted to the stimulation of the demand for Robinhood flour in this district?

## 196. CHICOPEE HOSIERY COMPANY—ADVERTISING PLAN

The Chicopee Hosiery Company received the following letter from the Atlas Sign Company, in October, 1919:

October 10, 1919.

Chicopee Hosiery Company,
Boston, Mass.

Gentlemen:

We make you the following proposal to join our manufacturers' Exclusive Club Plan for sign distribution, and your acceptance of this proposal will constitute a contract between us, as follows:

We agree to place a force of high grade salesmen upon the road to cover the Eastern and Middle Western States as agreed, where train, trolley and population makes this plan practical. These salesmen will represent you in the capacity of specialty advertising representatives.

You are to furnish us with a list of your agents or dealers throughout the country, said list to have not less than 5,000 names. These lists are to be made out by states, and will be treated by us with the strictest confidence and returned to you promptly at the expiration of the campaign. We will furnish necessary circulars to be mailed to all your customers, and pay the postage, but you are to address envelopes to each dealer in the entire list. These circulars are carefully prepared and explain fully to your dealer the plan whereby he can obtain splendid advertising returns for a very small outlay.

You are also to secure all orders possible through your own salesmen in the territory not covered by the salesmen that we will furnish.

The circulars will be mailed to each of your customers, not to exceed 20,000, and where possible, as stated above, will be followed by the call of one of our salesforce, who will take orders in your name for the signs, sending the original orders to you daily and a duplicate copy to us for our information.

The sign we propose to furnish is made from either 10x28, 12x24, or 12x36 inch, 30 gauge metal, embossed, six holes punched, varnished, the advertising contained thereon to be as per sketch made by us and approved by you, ample space being left for the name of dealer and also name of town, which we will imprint in quantities of 100 or multiples thereof as ordered.

This club will be made up of five or more lines and you will be the only firm in your line. Our salesforce are representing five or more manufacturers who sell to different dealers in the same town and through this means we are enabled to make this offer.

The price will approximate $17.50 per hundred signs. Actual price will be quoted after you decide on size of sign and design or trade-mark desired. The price will vary but little from the approximated $17.50 per hundred.

This low price has been figured upon the basis of securing orders to the amount of at least 30,000 signs. Upon the performance by you of the conditions herein contained, however, we agree (that in the event of the total number of orders falling short of this mark) not to charge you more than the price we make you on the basis of our selling 30,000 signs. At the close of the campaign you agree to place an order with us for the actual number of signs for which you have received orders from your dealers and no cancellations can be accepted after the campaign is closed and this order has been placed by you.

Terms 1% ten days, net 30 days from date of invoice; shipments F.O.B. factory, by way of N. Y., N. H. & H. R. R. and connecting lines. Claims for loss in transit of shipments, if any, to be made by you direct to the railroad company, our responsibility ceasing on receiving receipt from railroad company that goods are received in good condition.

You are to address envelopes and prepare in triplicate a list of the orders received by you from the circulars, from your salesmen and from our salesforce on blanks which we will furnish, which list we shall use in manufacturing the signs for your customers. You are to pay us for the number of signs actually sold at the price agreed. Your dealers are to remit direct to you.

As we herein offer you the exclusive membership in your particular line to this club, we must ask your definite acceptance or refusal in five days after date hereof.

Yours very truly,
(signed) Atlas Sign Company.

Should the proposal have been accepted by the Chicopee Hosiery Company? This company manufactures medium and high-price hosiery for men and women. It employs salesmen to cover department stores and wholesalers in the cities of the United States with 100,000 population and over. The company's salesmen also cover wholesalers in smaller cities. About 60% of the product of the Chicopee Hosiery Company is sold under its own trade-mark, which is advertised in magazines of national circulation. The remainder of the product is sold under wholesalers' and retailers' private brands. The proportion of private brand goods manufactured has slowly declined during the last ten years. The total volume of sales of the company has shown a steady increase.

## 197. ALBEMARLE MANUFACTURING COMPANY—NEWSPAPER ADVERTISING

The Albemarle Manufacturing Company makes a variety of package and canned food products which are sold directly to retailers. The advertising campaigns of the company are planned one year in advance. Ordinarily provision is made for featuring one article or group of articles each month. The selection of the articles to be featured is in accordance with the seasonal demand. Through the Albemarle house organ and the instructions that are issued by the sales manager, the efforts of the salesmen are directed each month toward the articles that are featured in the advertising. The other articles that the company sells are not to be neglected by the salesmen, but by giving special attention to the articles that are featured, it is expected that the total volume of sales will be increased.

Advertisements are placed in weekly and monthly magazines of national circulation.

For what specific purposes can newspaper advertising[1] be used advantageously in such a campaign as this? What type of newspaper will ordinarily be most serviceable? Should trade papers also be used in this campaign?

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[1] *Attainable Ideals in Newspaper Advertising*, published by O'Mara and Ormsbee.

### 198. BELGRADE HAT COMPANY—ADVERTISING PLANS

The Hunter Advertising Agency has obtained as one of its clients the Belgrade Hat Company. The Belgrade Hat Company manufactures men's hats of high quality. The new plans of distribution provide for the sale of its product under the Belgrade brand, to be nationally advertised. A system of exclusive agencies in the retail trade is to be established. One of the provisions of the agreement with the exclusive agents is that the Belgrade Hat Company will pay one-half the cost of the local advertising by the retail agents. Assistance is to be rendered to the local agents in planning their advertising. Magazines and other mediums are to be used in the national advertising campaign.

The Belgrade Hat Company has an advertising manager who is to furnish a point of contact between his company and the advertising agency. The advertising agency is to formulate the advertising plans. They are to submit the plans to the Belgrade Hat Company for approval. The advertising agency is also to prepare the copy and to make arrangements for carrying out the plans, such as making contracts with publishers for space.

What are the major questions that the advertising agency must decide in the formulation of the advertising plans for the Belgrade Hat Company?

## 199. CUYAHOGA FACE BRICK COMPANY—ADVERTISING PLANS

The Cuyahoga Face Brick Company is located in Ohio. Because of the limitations imposed by freight rates, 90% of the sales of this company are made within 500 miles of its plant.

The company has an exhibit room in which a complete set of panels is set up in mortar to exhibit the various shades, shapes, and sizes of face brick in several color combinations. Salesmen are employed to call upon contractors, architects, and prospective owners of buildings to be constructed. In the exhibit room prospective builders and others who are interested have an opportunity to formulate an opinion as to the use of face bricks.

This company has not advertised up to the present time. If it were to plan an advertising campaign, to whom should the advertisements be directed?

## 200. MAYFLOWER SUGAR REFINING COMPANY—ADVERTISING AND PRICE POLICIES

The sales manager of the Mayflower Sugar Refining Company made the following announcement to the wholesale and jobbing trade, March 20, 1917:

> Believing in the jobbers' ability to distribute sugar to our mutual advantage, we desire to use your force in assisting us in placing "Mayflower Package Sugar" in the hands of the retail trade. We are not doing any specialty work

or general advertising, so that in return for this effort on your part we are prepared to make you a certain "advertising allowance." This we enumerate below:

| | Competitors Differential Over Bulk | New Mayflower Differential Over Bulk | Mayflower Advert'ng Allowance |
|---|---|---|---|
| 2 lb. bags (packed in sacks) | 40¢ | 40¢ | 10¢ |
| 2 lb. bags (packed in barrels) | 50¢ | 50¢ | 10¢ |
| 2 lb. cartons (packed 60 to a case) | 40¢ | 40¢ | 15¢ |
| 3 ½ lb. bag (packed in barrels only)s | 50¢ | 50¢ | 10¢ |
| 3 ½ lb. cartons (packed 32 to a case) | 40¢ | 40¢ | 15¢ |
| 5 lb. bags (packed in sacks) | 40¢ | 40¢ | 10¢ |
| 5 lb. bags (packed in barrels) | 50¢ | 50¢ | 10¢ |
| 5 lb. cartons (packed 24 to a case) | 40¢ | 40¢ | 15¢ |
| 10 lb. bags (packed in sacks) | 30¢ | 30¢ | 10¢ |
| 10 lb. bags (packed in barrels) | 40¢ | 40¢ | 10¢ |
| 25 lb. bags (packed 4 to a sack) | 20¢ | 20¢ | 5¢ |
| 25 lb. bags (packed in barrels) | 30¢ | 30¢ | 5¢ |

You will see that the proposal is to list our package sugar at the same differential over bulk as competing brands, and to credit you on our invoice with an "advertising allowance" as a direct return to you for pushing the sale of our package sugar instead of our spending this money indirectly through advertising.

We are strongly of the opinion that this proposal will work to our mutual advantage, and hope to have your full cooperation.

What factors had to be taken into account by the Mayflower Sugar Refining Company in deciding upon this policy?

# PART VIII

## PRICE POLICIES

THE following problems bring out the principles of price determination and the relation of price policies to other sales policies.

### 201. PITTSBURGH BASING POINT SYSTEM

The following statements summarize the applications and answers received by the Federal Trade Commission concerning the so-called Pittsburgh Basing System for Steel.[1]

#### APPLICATION OF THE WESTERN ASSOCIATION OF ROLLED STEEL CONSUMERS

The Western Association of Rolled Steel Consumers, a voluntary association with headquarters in Chicago, makes application to the Federal Trade Commission to institute a proceeding in respect to the violations of law and to issue a complaint against the United States Steel Corporation and its subsidiary corporations; and against the Inland Steel Company, of Chicago; the Interstate Iron and Steel Company, of Chicago; the Steel and Tube Company of America, Chicago; on the grounds of unlawful restraint of trade and of price discrimination contrary to the provisions of the anti-trust acts and of unfair competition in trade against the constituent members of the petitioners, association to the injury of their business and to the injury of other steel fabricators operating in that part of the United States that comprises generally the Central Western, Northwestern and Southwestern states. The petitioner association is composed of upward of 700 fabricators of steel engaged in the manufacture and sale in interstate commerce of products of which rolled steel is a constituent part.

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[1] Federal Trade Commission: *Applications, Answers, and Statements Concerning the So-called Pittsburgh Basing Point for Steel*, October 15, 1919.

A brief reference to methods of quoting prices of pig iron is given in *Steel and Metal Digest*, July 1918, p. 413.

The United States Steel Corporation, respondent, through the subsidiary companies which it owns and controls, among which are the Illinois Steel Company and the Carnegie Steel Company, is engaged in the production and sale in interstate commerce of rolled iron and steel, including plates, shapes, sheets, and bars, and other products of their rolling mills. The respondents have one of their principal producing plants at South Chicago; and operate other plants at Joliet, Illinois; at Duluth, Minnesota; Milwaukee, Wisconsin; Pittsburgh, Pennsylvania; and elsewhere.

The rolled steel made in the Chicago district by the respondent, United States Steel Corporation, through its subsidiaries, and by the respondents, Inland Steel Company at Indiana Harbor, Indiana, by the Interstate Iron and Steel Company at East Chicago, Indiana, and the Steel and Tube Company at Indiana Harbor, Indiana, is produced at a cost substantially lower than at the Carnegie plant of the United States Steel Corporation at Pittsburgh, Pennsylvania, or at other plants at Pittsburgh or at other places east of Gary or elsewhere and over one-fifth of the rolled steel made in the United States is made by the respondents at Gary, Indiana, which is distant not more than thirty miles by rail from Chicago, at Joliet which is about forty miles from Chicago, and at East Chicago and Indiana Harbor which are between Chicago and Gary. Pittsburgh, Pennsylvania, is distant from Chicago substantially 500 miles. The lower cost of producing at Gary, Chicago, Joliet, East Chicago, and Indiana Harbor, as compared with the cost of producing rolled steel at Pittsburgh, is due to the shortness and directness of the all-water transportation of ore from the mines of Minnesota to the mills in the Chicago district and the proximity of these mills to coal.

It is stated that Gary, Indiana, is the second largest producing district of rolled iron and steel and the only large producer of practically the entire line of steel products outside the Pittsburgh district. The Gary plant of the United States Steel Corporation was constructed in 1906 and has since been enlarged. It has a favorable location for the economical production of rolled steel. It is stated that the plants of the respondents at Gary, Chicago, Joliet, East Chicago, and Indiana Harbor from time to time have been rapidly enlarged.

In 1917,[1] the year (for) which the last official statistics were accessible, about 86 per cent of the entire production of iron ore came from the Lake Superior district, while 10 per cent thereof came from the Birmingham district, 2½ per cent from the three States of Pennsylvania, New York, and New Jersey, and 1½ per cent from Colorado. That the greatest normal growth and increase in iron and steel production under peace conditions will naturally and normally be in and about Chicago, where the great plants at Gary, Chicago, Joliet, East Chicago, and Indiana Harbor are located, by reason of the cheaper cost of production thereof than at other places; and that the principal natural and normal growth and increase of the consumption and demand of iron and steel and their products now is and will be in the Middle West and the territory tributary to the Chicago district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 7-9.

The applicant submits that the normal and reasonable price for rolled steel should be measured by the cost of production, with the addition of a reasonable profit, without the addition of a large and arbitrary increase, which forms no part of the cost of production and is over and above such reasonable profit. The district and territory in which the factories of the members of the applicant association are situated is tributary to the location of the mills at or near Chicago, where rolled iron and steel are produced at the lowest cost and where and to and from which the greatest and the shortest facilities for transportation from mill to consumer are and will continue to be furnished.

The application of the principle of price fixing at cost plus a reasonable profit and of the law of supply and demand requires that the price of rolled steel in the Chicago district should be as low as and not greater than the price at any other point or in any other district in the United States. The fixing of any higher price for rolled steel produced in that district is arbitrary, artificial, unreasonable, and uneconomical, and gives to the respondent producers excessive and unreasonable profits.

It is submitted that if basing points are economically sound, then, in the interest of the trade—of consumers and producers and of the districts or sections to be served and affected—their selection should take into view their situation with respect to cost of production, supply, and proximity to existing and growing greater demand under normal and natural conditions. In any proper consideration of the question, the applicant maintains that if a basing point or basing points are to be considered as proper and recognized, Chicago best answers all the conditions and should be a basing point.

* * * * *

In support of this application, your petitioner sets forth the following facts as constituting the violations of law complained of:

1. That said United States Steel Corporation and its subsidiary company, the Illinois Steel Company, acting under its control and direction, and the said Inland Steel

Company and the Interstate Iron & Steel Company and the Steel & Tube Company of America, aforesaid, upon sales in interstate commerce for use, consumption, or resale within the United States, are and since on or about the 1st day of July, 1918, have been, charging to the members of the petitioner association and to other purchasers in the States mentioned in paragraph 1 hereof, for rolled steel consisting of iron and steel plates, shapes, sheets, and bars, and other rolled-steel products of their respective mills, which are by them rolled and manufactured and delivered at or shipped from their said respective rolling mills situated at Gary, Indiana Harbor, and East Chicago, Ind., and Chicago Heights, and Joliet, Ill., at a price which is fixed by adding to the proper price thereof as measured by the cost of production plus a fair and reasonable profit, the amount of the railroad freight charges or cost of transporting such commodities from Pittsburgh, Pa., to Chicago, or to the destination where they are to be received by the purchasers, respectively, less the freight charges from the plants of such producers to such destination, as if such commodities were in fact shipped from Pittsburgh, instead of being shipped from their respective mills at Gary, Chicago, Indiana Harbor, East Chicago, or Joliet, as the fact is.

In other words, the prices of such commodities are increased by large fictitious freight rates, which amount to $5.40 per ton or thereabouts, and which are not incurred or paid and are not any proper element or part of the price of such commodities, but are an arbitrary and excessive and unreasonable addition thereto.

2. That many of your complainants, members of the petitioner association, are competitors in business in interstate commerce of other fabricators in what is known as the Pittsburgh district or in the States east of Indiana, who have been during the same period and are also purchasers in interstate commerce from respondents of like commodities, and to such competitiors the said respondents have been and are selling such commodities at prices substantially less than the said prices by them exacted from and paid by the members of the applicant association as aforesaid.

3. That the respondents during said period have been and are selling such commodities to such competitors at Pittsburgh and in the Pittsburgh district of the complaining members of the applicant association f.o.b. Pittsburgh and at prices less by the amounts of the ruling freight charges on like commodities from Pittsburgh to Chicago, or by substantially that sum, than the prices so made to the members of the applicant association or other fabricators or consumers located in the Chicago district, or in the territory

tributary thereto, for like commodities produced at Gary, Chicago, Joliet, East Chicago, and Indiana Harbor.

* * * * *

5. That the effect of such discrimination in price is to cause to and impose upon the respective members of the applicant with respect to sales or attempted sales by them of their products to customers in the Pittsburgh district, or in the territory east of said Chicago district, the great cost or sum amounting to such fictitious freight rate from Pittsburgh to Chicago, in addition to the cost of transportation of their own product from their mills to their customers in the Pittsburgh district or territory east of Indiana, and thereby practically to exclude them from such trade in competition with fabricators located in said Pittsburgh or eastern district or territory.

* * * * *

9. That[1] to meet the said Pittsburgh base price the respondents, who have mills in the Chicago district, make prices and sell to purchasers in the Pittsburgh district or in territory between the east line of Indiana and Pittsburgh, who are competitors of the members of applicant, at prices of the Pittsburgh mills and themselves absorb the freight rate from their mills to the purchaser's plant, and thus discriminate in price to the amount of several dollars per ton in favor of such competitors and against applicant's members.

10. That the respective respondents do not in all cases or uniformly maintain or charge such Pittsburgh base price but have practiced and made and do make other discriminations in price in favor of certain customers in the Chicago district, viz.:

They have quoted and made and do quote and make, as applicant is informed and charges, to and in favor of all or certain agricultural implement manufacturers, and to certain other consumers and purchasers in order to secure orders, prices f.o.b. Chicago or f.o.b. mill for such rolled steel, which is less by said addition of $5.40 per ton or thereabouts than the prices exacted from the members of the applicant.

They have quoted and made and do quote and make prices to railroad companies for rails, angle bars, splice bars, and tie plates f.o.b. Chicago or Pittsburgh or f.o.b. mill. They quote and sell basic pig iron at the same price f.o.b. Chicago and f.o.b. Pittsburgh.

Applicant admits that such practices, besides constituting discriminations in prices, show that such price fixing f.o.b. Pittsburgh solely, which is herein complained of, has no trade or economic reason or basis.

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[1] Federal Trade Commission: *Applications*, etc., p. 11.

11. That the effect of the discriminations in price aforesaid may be and is to substantially lessen competition and tends to create a monopoly in the said line of commerce.

### STATEMENT OF THE APPLICANT, THE WESTERN ASSOCIATION OF ROLLED STEEL CONSUMERS[1]

### IV

That such discrimination in price of rolled steel products produced by said United States Steel Corporation and its subsidiaries has been, during the period aforesaid, made and is being made between different purchasers of commodities upon sales in which such commodities are sold and purchased for resale within the United States; that many such purchasers, who are members of the petitioner association, are dealers in such commodities, and purchased the same from the respondents for resale within the United States; and that the effect of such discrimination has been and is to substantially lessen competition in that line of commerce between such dealers and purchasers who are located at Chicago and other places near or tributary thereto or in the Middle West, West, and Northwest with their competitors who are situated in the territory east of Gary.

### V

That by reason of such discrimination the Chicago fabricators and dealers in rolled steel products are put at a disadvantage as compared with the fabricators and dealers at Pittsburgh and in the Pittsburgh district in the competition for trade. For illustration, at each of the following cities of Illinois to the following amounts:

| | Amounts per cwt. (Cents) |
|---|---|
| Streator and Peoria | 7 |
| Bloomington, Fulton, Galesburg, and Quincy | 6 |
| Springfield, East St. Louis, Centralia | 5 |
| Cairo and Johnston City | 12 |

As to the district east of Chicago and between Chicago and Pittsburgh: The Wisconsin Bridge & Iron Co., located at Milwaukee, Wis., 85 miles north of Chicago, and where the United States Steel Corporation has a rolling mill, is a fabricator of steel and a member of petitioner association and is a competitor of a Detroit fabricator. By reason of such discrimination the Wisconsin company, although located in such close proximity to the respondents' rolling mills, and a purchaser of steel produced at such mills, is put at a disadvantage over its Detroit competitor in business at Detroit of $5 to $6 per ton; and this is true with reference to the competitors of the Wisconsin company in Indiana, Illinois, and elsewhere.

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[1] Federal Trade Commission: *Applications*, etc., pp. 16-18.

The Kewanee Boiler Co., located at Kewanee, Ill., by reason of such discrimination, is not only put at such a disadvantage over its competitors in the Pittsburgh district in the competition for trade at points east of Indiana as to substantially put it out of the competition, but at points in the southwest, such as Tulsa, Okla., and Dallas, Tex., the manufacturer in the Pittsburgh district, although several hundred miles more distant, can make delivery in Tulsa, Okla., or Dallas, Tex., within a cent per pound of what it costs the Kewanee company.

McCord & Co., steel founders at Chicago and a member of the petitioner association, has a Pittsburgh competitor, and both have as customers for the trade with which they are competing at points in Pennsylvania and in the East.

By reason of which discrimination McCord & Co., although it gets its steel from the Chicago mills, is compelled to face a handicap of substantially $10.80 per ton, represented by the freight rate from Pittsburgh to Chicago which is not earned, plus the freight upon its own product from Chicago to Pittsburgh, which is earned. Such freight from Pittsburgh to Chicago which is not earned is arbitrary and forms no part of the proper price for the steel. On the other hand, the Pittsburgh competitor can compete with the McCord Co. for business in Chicago and the West without any such handicap and as if its factory or mill were at Chicago where the McCord mill is, because the Pittsburgh competitor, in competing for business at Chicago or in the Chicago district, purchases his steel at Pittsburgh without having to pay such unearned freight, and this handicap on the McCord Co. enables the Pittsburgh competitor to compete on an even keel in Chicago with McCord.

The Evan L. Reed Manufacturing Co., and a member of the petitioner association, is a manufacturer of bolts and rivets at Sterling, Ill., and by reasons of such discrimination is compelled to pay for their rolled steel products at Chicago such price increased, as aforesaid, by the amount of the freight rate from Pittsburgh to Chicago as if they bought their steel at Pittsburgh. A competitor bolt and rivet concern in Ohio, more than 300 miles from the Chicago district in which the Reed Co. is situated and trades, can by reason of such discrimination manufacture and deliver in the Chicago district its product at less than the Reed Co. can.

The Western Wheeled Scraper Co. and a member of the petitioner association, manufactures in Chicago a dump car which it sells in competition with competitors in the Pittsburgh district. The steel in each car costs the Western Co. $54 more than it costs its Pittsburgh competitor. The

Pittsburgh competitor can ship its product—its own cars—on their own wheels to Chicago at mileage rates amounting to $32.69, and can therefore deliver its product in Chicago $21.31 per car cheaper than can the Western Co., although the Western Co. buys its steel at Chicago. On the other hand, the Western Co., in order to compete in the Pittsburgh district, is put to the cost, amounting to $86.69 more than the Pittsburgh company.

The respondent, Inland Steel Co., quoted to H. C. Christman, of Detroit, a price for rolled steel of $2.68 per hundredweight f.o.b. Detroit, which is 260 miles from the seller's mill. At the same time they charged and exacted a price f.o.b. Chicago of $2.72 per hundredweight.

What is above alleged as specific, concrete illustrations applies mutatis mutandis to the purchases of rolled sheet products and the trade and business of all the members of the applicant association as against and in favor of their competitors in the Pittsburgh or eastern district. Like and divers other and different discriminations have been and are being made by respondents in sales to the members of applicant association.

By reason of which arbitrary increase of price by adding to the fair market price of rolled steel purchased by the members of the applicant association the freight rate from Pittsburgh, or by making their sales on the f.o.b. Pittsburgh basis of steel manufactured at Gary, Chicago, or in that district, such members are unable to sell their product manufactured from such rolled steel in competition with Pittsburgh competitors or competitors in the Pittsburgh or eastern district in the territory east of Gary, Ind., although they have had and rightfully should be permitted to have, and but for such discrimination in price could continue to have, a large and profitable trade therein. And while by such practice and discrimination in price such members of applicant association are excluded from the district east of Chicago and confined to their own district, their eastern competitors, who are so thereby given their eastern territory exclusively, are also placed upon an equal basis with such members of applicant in the competition for trade in their own Chicago or Middle West district.

### APPLICATION OF THE SUPERIOR COMMERCIAL CLUB

Application made on behalf of the commerce, trade, and financial interests of the citizens in the city of Superior, Wisconsin, and others.

* * * * *

4. That[1] for a number of years last past the United

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[1] Federal Trade Commission: *Applications*, etc., pp. 24, 25.

States Steel Corporation, either by the exercise by it of a monopolistic control of the steel industry or by united action and agreement with the unknown steel-manufacturing companies above referred to, commonly designated as independent steel companies, has fixed and controlled the market price of steel throughout the States and Territories of the United States of America; that such price has been fixed, during the period above referred to, upon what is known and commonly designated as "the Pittsburgh base"; that the purchasers of steel throughout the States and Territories of the United States are, by reason of the fact above set forth, obliged to pay for steel purchased by them the market price at Pittsburgh, Pa., plus the current freight charge from Pittsburgh to the point of delivery, irrespective of the actual shipping point of the goods purchased; for example, a purchaser of steel at Superior, Wis., is obliged to pay for steel shipped and delivered from Chicago, Ill., or Gary (Ind.), in Duluth, Minn., the market price at Pittsburgh plus the current freight rate from Pittsburgh to Superior, notwithstanding the fact that the steel so purchased by him is in fact shipped from Chicago, Ill., or Gary (Ind.), in Duluth, Minn., and the actual cost of shipment from the points last named is considerably less than the cost of shipment or freight charged from Pittsburgh

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This practice[1] is an unjust discrimination against the communities located in the Lake Superior district. The Lake Superior district has the richest and best fields of iron ore in the world. It has unrivaled transportation facilities, both by water and by rail. Naturally there should develop in this district marvelous industrial activity, especially in the fabrication of steel and iron products, but fabricating plants are not being located. When we inquire the reason, we find it to be the unjust practice involved in making the Pittsburgh district the sole basing point for steel prices. If this were done away with, it is believed that a fair share of fabricators would avail themselves of the various advantages offered at the head of Lake Superior and would locate here. Now, it is not the thought of the Superior Commercial Club that the United States Government should extend it any special aid or artificial assistance in the development of the city of Superior and the surrounding district. The people of Superior are willing to stand on their own feet and take their own chances. All they ask of the United States Government is that the present artificial handicap to which the head of the lakes is at the present time illegally subjected shall be removed.

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[1] Federal Trade Commission: *Applications*, etc., pp. 29-31.

In answer to this argument, Judge Gary, the chairman of the board of directors of the United States Steel Corporation, takes the position that the abolition of the Pittsburgh base is not feasible. He further contends that the establishment of a mill base is out of the question. To be more specific, in discussing the question of the establishment of a base for the plant located in Duluth, Minn., which is the feature of the whole case that is of vital interest to the Superior Commercial Club, Judge Gary intimated in his speech made in Duluth in the summer of 1918 that it costs 13 per cent more to manufacture steel in Duluth than in Pittsburgh. This, he intimated, made it impossible to establish a base at Duluth. The inference was that the Steel Corporation could not manufacture steel profitably in Duluth with a Duluth base. However, no proof of this was offered. The Superior Commercial Club certainly does not admit that it costs 13 per cent more to manufacture steel in Duluth than it does to manufacture it in Pittsburgh, but, for the sake of argument, we may temporarily assume that it does. In that case it seems clear to us that the logical thing to do would be to charge for the steel manufactured at Duluth such a price as would cover the cost of manufacturing, plus a reasonable, and indeed a liberal, profit. Then if the steel were shipped away from Duluth the actual cost of transporting it should be added. But we can never admit that such transportation cost should be added when no service of transportation is actually rendered.

Now, suppose we accept Judge Gary's own intimation in regard to the cost of manufacture, what do we find? We find that in normal times the cost of manufacturing rolled steel does not exceed $20 a ton. Now, 13 per cent of $20 is $2.60. Thus it would seem fair, according to Judge Gary's own argument, that the people of the Duluth district should pay $2.60 a ton more for their steel than the people of the Pittsburgh district. But we find, as a matter of fact, that the steel corporation is charging the people of the Duluth district $9.90 a ton more than it is charging the people of the Pittsburgh district. According to Judge Gary's own argument, therefore, the people of the Duluth district are being overcharged to the extent of $6.30 a ton at the present time.

But let us analyze Judge Gary's argument further. He says the cost of manufacturing steel in Duluth is 13 per cent greater than in Pittsburgh, 38 per cent greater than in Gary, Ind., and 39 per cent greater than in Birmingham, Ala. He further states that a Duluth base cannot be established because the cost of manufacturing in Duluth is 13 per cent greater than in Pittsburgh. It will readily be seen that the judge proves too much, and that his argument defeats itself.

According to his own statement, the cost of manufacturing in Pittsburgh is about 25 per cent greater than in Birmingham or Gary. Now, if a difference of 25 per cent does not interfere with the establishment of a Pittsburgh base, how can a difference of 13 per cent between Pittsburgh and Duluth, which is only half as great as the difference between Birmingham and Pittsburgh, prevent the establishment of a Duluth base?

But while the people who listened to Judge Gary in Duluth understood him to say that the cost of manufacturing in Duluth is 13 per cent greater than in Pittsburgh, the printed pamphlet which he later issued containing his Duluth address indicates that his Duluth hearers did not exactly understand his statement in regard to the relative cost of manufacture in Pittsburgh and Duluth. The printed report of the speech issued by the judge himself states that the Duluth plant is more up to date and better equipped than the Pittsburgh plants, and therefore more efficient than the Pittsburgh plants. In fact, in the Duluth address Judge Gary stated that the Duluth location was not only the most beautiful, but also the most practical site for a steel plant of any in the world. Then Judge Gary stated that it would cost 13 per cent more to manufacture in Duluth than in Pittsburgh with plants of equal efficiency. What the actual difference in cost of manufacturing may be between Duluth and Pittsburgh, the printed report of Judge Gary's address leaves us to conjecture, and it is the opinion of the Superior Commercial Club that the cost of manufacturing steel in Duluth should be less than it is in Pittsburgh. The reasons for this opinion may be stated briefly as follows:—

To manufacture a ton of the ordinary rolled steel required 2 tons of 50 per cent iron ore and 1¼ tons of coal. In ordinary times the cost of transporting the iron ore from Duluth or Superior to the Lake Erie ports is approximately 60 cents a ton. On the other hand, the cost of transporting a ton of coal from the Lake Erie ports to Duluth is in ordinary times approximately 30 cents a ton. It must be borne in mind that the ore for the Pittsburgh mills has to be transported from Duluth or Superior to the Lake Erie ports, while the coal used in smelting at Duluth has to be transported from the Lake Erie ports to Duluth. It will thus be seen that the Pittsburgh steel involves the transportation cost for the ore of $1.27. At the same time Duluth steel involves a transportation cost for the coal of not over 40 cents. Roughly, we find a saving here in favor of Duluth steel of 80 cents on every ton of steel manufactured. The other item of importance used in the manufacture of steel is limestone, and we are reliably informed that the cost of transporting the limestone to Duluth is no greater than is the cost of transporting it to the Pittsburgh district. Thus far we find that the conditions favor Duluth. Another important element in the cost of manufacture is labor. It is stated by Mr. R. T. Kirkham, of Superior, that climatic conditions at the head of Lake Superior are such that labor employed in steel plants is, on the average, at least 10 per cent more efficient than it is in the Pittsburgh district. We know, furthermore, gentlemen employed by the United Steel Corporation have stated that living conditions in Duluth and Superior are such that labor employed at the Duluth plant is more contented than is the corresponding labor employed in the Pittsburgh district. This leaves as the only other item for us to consider the relative efficiency of the Duluth and Pittsburgh plants, and upon this we have the testimony of Judge Gary himself, who has stated publicly that the Duluth plant is more modern and more efficient than the Pittsburgh plants.

Applications also were submitted by the State of Minnesota and by The Joint Committee of Civic Organizations of Duluth.

### APPLICATION OF THE SOUTHERN ASSOCIATION OF STEEL FABRICATORS[1]

1. The Southern Association of Steel Fabricators is a voluntary association of fabricators of steel, whose address is 87½ South Forsyth Street, Atlanta, Ga.

2. This application is for a complaint to be issued by this Commission against the following parties: The United States Steel Corporation, 71 Broadway, New York City; The Tennessee Coal, Iron and Railroad Co., Birmingham, Ala.; The Republic Iron and Steel Co., Birmingham, Ala.; The Gulf States Steel Co., Birmingham, Ala., The Knoxville Iron Co., Knoxville, Tenn.; and all other steel producers situated or engaged in interstate commerce, in the Southeastern States.

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5. The respondents herein have been and now are engaged in the production and sale in interstate commerce of rolled, semifinished, and finished steel, including plates, shapes, sheets, bars, wire, cotton ties, barrel hoops, and other products. The applicant submits that the normal and reasonable price of such products should include the cost of production, with the addition of a reasonable profit, but without the addition of a large and arbitrary increase under the guise of a fictitious freight rate or otherwise.

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[1] Federal Trade Commission: *Applications*, etc., pp. 52-54.

6. The three basic elements in the production of iron and steel are iron ore, coal, and limestone. All three of these elements are found together in the Birmingham district, a condition making for low cost production which exists nowhere else in the United States. The respondents situated in the Birmingham district can and do produce steel and iron as cheaply as the producers in Pittsburgh district or elsewhere. If basing points are sound and are to be continued, then Birmingham has the same right to be named a basing point as has Pittsburgh, and the prices charged throughout the South should include only the freight rate from Birmingham and not the freight rate from Pittsburgh.

7. The southern territory in which the factories of the members of the applicant's association are situated is tributary to the mills located at and near Birmingham. Yet the respondents and all other steel producers engaged in interstate commerce, no matter where located, sell their products for the Pittsburgh base price plus the amount of the freight from Pittsburgh to the purchaser. The basis of charge is the same, regardless of the location of the purchaser; in other words, the price of steel is increased by a large fictitious freight rate which is not incurred or paid and is not a proper element in the price of the commodity.

8. By reason of this, competition in steel is not only lessened, but stifled, the cost of steel is increased by an arbitrary and unwarranted amount, and buyers and manufacturers situated in and near Pittsburgh receive preference and protection and those farther away are discriminated against unfairly and unreasonably.

9. To demonstrate the stifling competition, applicant shows that the gross price to purchasers of steel is exactly the same, whether petitioners buy in Pittsburgh, in Chicago, in Birmingham, or any other place.

10. By way of illustrating the arbitrary and unreasonable increase, applicant shows that on certain grades of steel the freight rate from Pittsburgh to Atlanta is 50 cents per 100 pounds, while from Birmingham to Atlanta it is only 19 cents. This difference of 31 cents in freight, or $6.20 per ton, is arbitrarily added to the price of shipments from Birmingham and is pocketed by the Birmingham producers. On many grades of steel the amount so pocketed is much larger.

11. By way of illustrating the discrimination, applicant shows that some of the largest and strongest competitors of the manufacturers belonging to applicant's association are situated in Pennsylvania, Ohio, Indiana, Kentucky, and other states close to Pittsburgh. The freight rates from Pittsburgh to the points in the states named are much lower

than the freight rate from Pittsburgh to Atlanta, though it is not as low as the freight rate from Birmingham to Atlanta. Applicant's members, however, are compelled to pay the freight rate, Pittsburgh-Atlanta, on steel produced in Birmingham, while their competitors are paying the lower rate charged from Pittsburgh to their plants. This discrimination in price is substantial and seriously hampers the business of the manufacturers of the Southeast. It excludes entirely the southeastern manufacturers from some markets which they could otherwise reach, and it amounts to an arbitrary and unreasonable preference and protection given to the regions closer to Pittsburgh at the expense of the rest of the country, and more especially at the expense of the Southeast.

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Wherefore, applicant respectfully asks that this Commission investigate the matter complained of, and if upon investigation the Commission has reason to believe there is a violation of which the Commission has jurisdiction, that a complaint be issued against respondents, and such further proceedings be had as to the Commission may seem meet and proper.

### APPLICATION OF THE BIRMINGHAM CIVIC ASSOCIATION AND THE BIRMINGHAM STEEL BASE BUREAU[1]

The Birmingham Civic Association and the Birmingham Steel Base Bureau respectfully make application to the Federal Trade Commission to institute a proceeding upon the allegations hereinafter made and to issue a complaint directed against the United States Steel Corporation and its subsidiary corporations, viz.: the Tennessee Coal, Iron and Railroad Co. and the American Steel and Wire Co., and against the Gulf States Steel Co., on the grounds of unlawful restraint of trade and of price discrimination.

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The steel billets and rolled steel including the various forms of wire material made in the Birmingham district by the respondent United States Steel Corporation and through its said subsidiary at the plants in Ensley, Bessemer, and Fairfield, Ala., are produced at a materially lower cost than the like products are produced by its other subsidiary companies and by the so-called independent steel companies in the Pittsburgh or eastern districts. The said plants at Ensley, Bessemer, and Fairfield, Ala., are situated, respectively, about 6, 11, and 5 miles from the center of the city of Birmingham, and that among the factors making for the said lower cost of steel production in said Birmingham district is the proximity of the iron ores, coal, and limestone, the three essential raw materials, all of which are within a radius of not exceeding 25 miles of one another and in most instances much nearer together in said district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 55-57; 61-62.

Steel production in said Birmingham district and at Alabama City, Ala., has been on the increase during several years past, and recent demand has caused the construction at Fairfield, Ala., of a large rolling mill, a large blooming mill, and a large fabricating plant by the United States Steel Corporation through the subsidiary, the Tennessee Coal, Iron and Railroad Co., this in addition to the facilities of the same corporation consecutively built by it at Ensley and Bessemer in the form of a modern steel production plant and rail mill at Ensley and a rolling mill at Bessemer. The said plants at Fairfield have been completed during the year 1919.

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Applicants are informed and believe and therefore state that the United States Steel Corporation, through its subsidiary, the Tennessee Coal, Iron and Railroad Co., owns and controls upward of 700,000,000 tons of iron ore and 2,000,000,000 tons of coal, situated practically all in what is known as the Birmingham district; that approximately one-half of said coal supply is of a superior coking quality; and said iron ore is largely of a self-fluxing quality, analyzing approximately 38 per cent metallic iron, and said ore is well suited to the manufacture of basic pig iron for use in the production of basic open-hearth steel.

If the principle is accepted of fixing the price of rolled steel in accordance with the law of supply and demand and by determining the cost plus a reasonable profit, then the price of rolled steel and billets f. o. b. mills in the Birmingham district should be as low and not higher than the price at mills in any other district in the United States.

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9. To meet the said Pittsburgh base price, the respondents who have mills in the Birmingham district make prices and sell to purchasers in the Pittsburgh district or in territory nearer Pittsburgh than Birmingham, who are competitors of fabricator members of applicants, at prices of the Pittsburgh mills and themselves absorb the freight rates from their mills to the purchasers' plants, and thus discriminate in price to the amount of several dollars per net ton in favor of such competitors and against applicants' said members.

10. The respondents having mills at Fairfield, Ensley, and Bessemer do not in all cases or uniformly maintain or charge such Pittsburgh base price, but have practiced and made and do make other discriminations in price in favor

of certain customers in the Birmingham district, viz.: They have quoted and made and do quote and make prices to railroad companies for rails, angle bars, and tie plates and other steel railroad equipment f. o. b. Birmingham or Pittsburgh or f. o. b. mill. The said Tennessee Coal, Iron and Railroad Co. quotes and sells pig iron at practically the same price f. o. b. Birmingham and Pittsburgh. And applicants submit that such practices, besides constituting discriminations in price, as aforesaid, show that such price fixing f. o. b. Pittsburgh solely has no trade or economic foundation.

### ANSWER OF THE UNITED STATES STEEL CORPORATION[1]

The United States Steel Corporation, Carnegie Steel Co., Illinois Steel Co., and Minnesota Steel Co., appearing by leave of the Federal Trade Commission, and responding to the application of the Western Association of Rolled Steel Consumers for a complaint against them and others, say:—

1. Respondent, United States Steel Corporation, is not now and never has been engaged in the production or sale of rolled iron and steel at Gary, in the State of Indiana, or South Chicago or Joliet, in the State of Illinois; or Milwaukee, in the State of Wisconsin; or Duluth, in the State of Minnesota; or Pittsburgh, in the State of Pennsylvania; or elsewhere, as stated in said application. United States Steel Corporation owns substantially all the stock of the Carnegie Steel Co., which produces and sells rolled iron and steel and other iron and steel products at Pittsburgh; substantially all the stock of the Illinois Steel Co., which produces and sells rolled iron and steel and other iron and steel products at Joilet, South Chicago, Gary, and Milwaukee; and substantially all the stock of the Federal Steel Co., whose subsidiary, the Minnesota Steel Co., manufactures and sells rolled iron and steel and other iron and steel products at Duluth. United States Steel Corporation sustains no relation to any of said companies except as stockholder as aforesaid, although it does from time to time make recommendations to said manufacturing companies with respect to the conduct of their several businesses and exercises such control over them as is incident to such stock ownership.

2. Respondents, Illinois Steel Co. and Minnesota Steel Co., generally sell their products of iron and steel at the prices charged for similar products in the Pittsburgh district for delivery at the Pittsburgh mills, plus an amount equal to the freight on such products from Pittsburgh to the point of destination. This is the practice of steel manufacturers generally. The prices so charged are not arbitrary nor are they the result of any agreement or understanding between producers. On the contrary, they are fixed and

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[1] Federal Trade Commission: *Applications*, etc., pp. 64-67.

controlled by the law of supply and demand and are the market prices prevailing in the territory served at the time of service. Said practice had its inception at the beginning of the steel industry in this country. At that time nearly all the iron and steel produced in the United States was manufactured in the Pittsburgh district and the Pittsburgh mills controlled the price as a matter of course. Since that time many mills have been established in different parts of the country outside of the Pittsburgh district, largely in what is known as the Chicago district. Such mills, however, have never been able to supply the requirements of the territory tributary thereto, the major part thereof having always been supplied by the Pittsburgh mills. As a consequence consumers within such territory have been obliged to depend upon the manufacturers in the Pittsburgh district for the larger part of their supplies, and for this reason the practice of selling at the prices charged by the Pittsburgh manufacturers plus freight from Pittsburgh has been continued down to the present time.

3. The practice of selling at the Pittsburgh base price, plus freight has not, however, been adhered to at all times or under all circumstances. When the demand has equaled or exceeded the supply it has generally been followed, but when the demand has lessened and the supply has materially exceeded the demand, and particularly when the production in the districts outside of Pittsburgh has equaled or exceeded the requirements of such districts, little attention has been paid to the Pittsburgh price, and the freight charged from Pittsburgh has either been omitted altogether or greatly reduced, following again the law of supply and demand in the territory served.

4. The practice above described long since became and still remains a settled custom in the trade. The business of producers and consumers have been arranged, manufacturing and fabricating plants have been located, and vast investments of capital have been made in reliance upon it. To change such practice by order of the Commission or in any other way than by the ordinary processes of trade would create great confusion in the industry and cause incalculable loss to a large number of concerns engaged in the business, and, respondents submit, should not be attempted.

5. Respondents further submit that the determination as to whether Chicago shall be a basing point in fixing the manufacturers' price for iron and steel would necessarily involve the determination of the price at which such manufacturers shall sell their products, and that such determination is beyond the powers conferred upon the Federal Trade Commission by law. To merely order that the Chicago manufacturers shall sell such materials as they manufacture

at a Chicago base price, without fixing such price, would but require a change in the name by which the transaction is described without affecting in any way the substance thereof.

6. Respondents further submit that Chicago could not properly be made a basing point for the sale of iron and steel under present conditions. Pittsburgh is and will continue to be the basing point for such products in the sense that it controls and will continue to control the price of iron and steel throughout the country so long as the country is dependent upon it for a substantial portion of its supply. It may be, as claimed in said application, that the greatest normal growth and increase in iron and steel production under peace conditions will naturally and normally be in and about Chicago, and it may be that at some future time the Chicago district will lead in the production of iron and steel in this country. When that time arrives, if it ever does arrive, the primacy will pass to Chicago, and it will become the basing point without the order of any legislature or commission and without the power of any person to prevent it. Until that time and so long as Chicago is only able to manufacture less than half of what it consumes, it is idle respondents submit, and contrary to all economic laws to insist that it shall be made a basing point. Chicago producers cannot be expected, nor should they be required, to sell their products in any locality at less than the market price prevailing in such locality, or at a substantially less price than their customers in such locality are obliged to pay to other producers for the major part of their requirements.

7. Respondent, United States Steel Corporation, denies that it discriminates between the purchasers of iron and steel in the Pittsburgh and Chicago districts within the meaning of section 2 of the Clayton Act. Assuming (although such is not the fact) that it sells in the Pittsburgh district what is there sold by the Carnegie Steel Co., and in the Chicago district what is there sold by the Illinois Steel Co., it says that such sales are made in each district to purchasers of the same class at the same price and are made in each district at the market prices there prevailing. Iron and steel are sold generally to the manufacturers of agricultural implements, and steel rails and accessories are sold to the railroads on a different basis and, in the case of some articles, at a lower price than to other consumers. The users of such steel, however, are not in competition with any other class of users, and the practice neither lessens competition nor tends to create a monopoly.

8. Respondents deny that the charging of a greater price for steel products in the Chicago district than is charged for like products in the Pittsburgh district under the circumstances above set forth amounts to unfair trading within the

meaning of the fifth section of the Federal Trade Commission Act. The unfair trading prohibited in that section is such as tends to the injury of competitors, not customers, and it is not suggested that the practice complained of is of that character. Moreover, such practice operates to the benefit of the consumers of steel, without regard to their location, as it gives them the benefit of the competition of the manufacturers of the whole country, whereas if the course insisted upon by the applicants should be adopted competition between localities would to a large extent, if not altogether, be destroyed. Nor is the claim that the Chicago fabricators are prevented by the practice in question from competing with the Pittsburgh fabricators in the latter's territory a substantial one. The fabricating business is essentially local in character on account of the high freight rate on fabricated material because of its bulk. The Chicago fabricators therefore could not successfully compete with the Pittsburgh fabricators in the latter's territory, even if the cost of rolled steel was the same in each locality.

9. While respondents concede the jurisdiction of the Commission to determine any question of discrimination arising under the second section of the Clayton Act and any question of unfair methods of competition arising under the fifth section of the Federal Trade Commission Act, they deny the jurisdiction of the Commission to fix the prices at which steel products shall be sold or to determine whether Pittsburgh, Chicago or any other point shall be a basing point upon which such prices shall be made. As to the allegations of discrimination and unfair methods of competition, respondents submit that the practices hereinbefore described do not involve either, and do not tend to substantially lessen competition or to create a monopoly in any line of commerce.

10. Respondents respectfully submit that the application for a complaint should be denied.

### ANSWER OF THE STEEL AND TUBE CO. OF AMERICA[1]

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2. The said method of fixing prices is not the result of any agreement, or of any understanding amounting to agreement, between this respondent and other producers of steel, in order to maintain prices of steel, either in the so-called Chicago district or elsewhere, or for any other purpose. No such understanding or agreement exists or has existed. The said method was and is a natural and necessary incident to competition in the steel industry. The steel industry, practically, had its origin in the Pittsburgh district, which at all times has produced and still does produce much the

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[1] Federal Trade Commission: *Applications*, etc., pp. 68-70.

larger part of the steel made in the entire country and its product is sold throughout the country. The manufacturers of steel in the Chicago district, as respondent is informed and believes, have in the past produced and do now produce much less than one-half of the steel required to meet the demands of consumers in that district. The larger part of the needs of consumers of steel in said district is supplied from the Pittsburgh district, and as a necessary consequence the market price within the Chicago district is generally the Pittsburgh price with freight from Pittsburgh added. It is submitted that there cannot be two market prices for steel products in the Chicago district, one applying to steel produced in that district and another to steel produced in Pittsburgh and shipped into that district, and that so long as a large portion of the needs of that district must be supplied from the Pittsburgh district the market price will, through the natural operation of the laws of trade, be generally the price at which the Pittsburgh product is delivered in the Chicago district.

While generally the prices in the Chicago district are based on Pittsburgh prices, the prices made by the mills in the Chicago district vary from time to time, in accordance with the relation of the supply to the demand in that district.

3. The use of the Pittsburgh base by steel manufacturers is but a method of arriving at the price at which the manufacturer will market his product, which is in conformity with, controlled by, and subject to the law of supply and demand. The establishing of Chicago as a basing point by the Commission, as is suggested in the application, would be an attempt arbitrarily to fix prices, in disregard of "the natural and normal forces governing supply and demand," to use the language of the application. It would have the necessary effect of lessening competition. But this respondent submits that it is not within the power of this Commission to fix prices to be observed by the manufacturers, either by establishing Chicago as a basing point or by any other methods.

4. Paragraph 7 of the application alleges that if the use of the Pittsburgh base is abandoned "the supply in such Chicago district of rolled steel and rolled steel products will accommodate itself to and meet the demand therefor." It is not reasonable to assume that the development of the steel industry in Chicago will be stimulated by removing the advantage it how has, arising out of its proximity to its chief market. It would seem that the natural effect would be to check such development. But, however that may be, the implied admission that the Chicago mills cannot now supply the demands of the district makes it certain that the

market price under present condition in that district can only be determined by the operation of the law of supply and demand.

5. The erection of steel plants in the Chicago district, involving investment of a large amount of capital, was in large measure due to the advantage gained by nearness to the market to be supplied. It would be both unfair and uneconomic for this Commission, if it had the power to do so, which this respondent denies, to compel respondent and other manufacturers to forego this natural trade advantage.

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8. Much the major portion of the rolled steel products of the respondent is in the form of pipe and tubing. Respondent is the only manufacturer of such pipe and tubing in the Chicago district. It supplies, however, but a small part of the pipe and tubing used and sold in said district, the larger portion thereof being furnished from the Pittsburgh district. The price at which it sells is and must be, therefore, the price made by manufacturers of the Pittsburgh district. It is therefore submitted that if this Commission has any power, which is denied, to require the sale of the pipe and tubing manufactured by respondent upon a Chicago base, such power should not be exercised to compel respondent to sell the comparatively small percentage which it produces at a price less than that at which the major portion of the pipe and tubing sold in the Chicago district is marketed.

9. Respondent denies that it quotes or makes, or has quoted or made, prices to manufacturers of agricultural implements on any other basis than that used in sales to its customers generally. As to the allegation that it discriminates in favor of railroad companies in quotations for rails, angle bars, splice bars, and tie plates, respondent says it does not manufacture or sell any of the articles mentioned.

### ANSWER TO THE INLAND STEEL CO.[1]

The Inland Steel Co. has no steel works east of the Chicago district and sells very little, if any, steel east of Indiana. Its natural market is west of Ohio, south to the Ohio River, and thence west to the Pacific coast.

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The application apparently seeks to convey the impression that the main factor in the cost of steel is the freight rate upon iron ore. This is obviously misleading. In the production of pig iron the tonnage of coal and limestone involved in the process of conversion is approximately equal to the tonnage of ore, and in the production of steel the tonnage of coal alone employed in the process largely exceeds the tonnage of ore. The coal used in the manufacture of coke for pig iron by the Inland Steel Co. must be hauled to its plant from the Pennsylvania and West Virginia fields, and the steam coal obtained from Indiana and Illinois for heat-making purposes is more expensive in proportion to quality than is the coal of the Pittsburgh district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 71-75

Much of the equipment, machinery, and supplies used in the manufacture of steel is produced in quantities only in the Pittsburgh district and have to be imported from that district by outside plants.

Without attempting to discuss the details of the costs in the respective territories and without accurate knowledge on the subject the Inland Steel Co. desires to express its conviction that production of steel by equal plants in the Pittsburgh and Chicago districts would show lower cost in the Pittsburgh district.

The industry was first established in the Pittsburgh district. Many of the large producers in the Pittsburgh district entrenched themselves by the acquirement at a comparatively early period of iron mines and other sources of raw material at a price lower than that at which similar sources could be acquired when Chicago competitors entered the field. This more than offsets any advantage which the Chicago district steel makers enjoy in connection with transportation costs.

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The individual members of the association making the application have seemed generally to have enjoyed a period of great prosperity during the last few years. The public statements of such of them as have been accessible have shown profits favorably comparable in proportion to capital invested with the profits of the steel producer so far as the same are matters of public knowlege.

Under the present system of quoting prices, with the Pittsburgh base as a standard, the members of the association are enabled to readily compare prices quoted by steel producers located in any part of the country.

If the use of a different base price did not materially alter prices quoted, it would obviously be useless to disturb the present custom.

If, in fact, the steel producer in any given locality undertook to base his prices solely on cost of production, giving the customer the benefit of all freight costs from competitive points, it is plain that the result would be to create a local monopoly on behalf of the steel producer in any given locality until the entire product of such local producer had been sold. Thereafter the customer would be obliged to pay higher prices to producers at other points through the addition of freight rates.

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The Inland Steel Co. has maintained its competitive business under conditions of nation-wide competition. It believes that it can maintain its business if such competition is localized, but it believes that localization of competition would be a disadvantage as against universal competition, which, based on a clearly understood scale of prices, produces a better understanding and relationship between the steel producers and their customers.

Moreover, the results of the present use of Pittsburgh as a basing point are largely exaggerated in the application in so far as that practice affects the great bulk of the western and northwestern territory.

The use of through rates based upon the practice of fabrication in transit and the difference between through rates and the sum of local rates in many parts of the country minimize the freight differential, and in many cases all-water or combined rail-and-water rates as compared with all-rail rates from Chicago to points west leave little margin in the local rate from Pittsburgh to Chicago.

The Inland Steel Co. therefore expresses its conviction that the applicants, as well as steel users generally, would be quite as likely to be harmed as to be helped by the granting of the application, and the Inland Steel Co. believes that the obvious result of forbidding the use of the Pittsburgh base rate would be to introduce a large element of confusion and uncertainty into steel and iron prices which would be especially injurious under the present conditions of economic unrest and uncertainty

### ANSWER OF THE INTERSTATE IRON & STEEL CO.

Interstate Iron and Steel Co., one of the respondents to the above-named application, for answer thereto says:

1. Respondent is the owner of a rolling mill at East Chicago, Ind., of the type known as hand bar mills. At said mill it rolls steel billets into shapes and bars and produces muck bars from pig iron and scrap, and rolls such muck bars into iron bars and shapes, or combines such muck bars with scrap and rolls such product into iron bars and shapes. Respondent produces no other rolled iron or steel products at said mill aforesaid, and produces no rolled iron or steel products elsewhere in the territory referred to and described as the Chicago district in said application for a complaint. The raw material used in such production is in part pig iron and scrap, which respondent purchases in the

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[1] Federal Trade Commission: *Applications*, etc., pp. 76, 78.

market and does not produce, sell or deal in. The other raw materials used in such production are steel billets, which respondent produces in open-hearth furnaces in Chicago, Ill. Such steel billets are likewise produced from pig iron and scrap, which respondent purchases in the market and does not produce, sell, or deal in.

Respondent does not own or operate any blast furnaces and does not own or use any iron ores in the production of iron and steel and is not an integrated steel producer. The raw material used by respondent includes in its cost to respondent a profit to the producer thereof. The other respondents to said application are integrated producers using iron ores as raw materials.

2. Respondent denies that the cost of such product as is produced at its said East Chicago, Ind., mill is lower than the cost of similar product produced by the Carnegie plant of the United States Steel Corporation or lower than the cost of similar product produced at other mills in the Pittsburgh district, and, on the contrary, avers and charges the fact to be that the cost of the rolled iron and steel shapes and bars produced at its East Chicago, Ind., mill (to which products its output is limited) is substantially higher than the cost of similar product produced by the Carnegie plant and similar mills in the Pittsburgh district. The products produced by respondent at said East Chicago mill are produced at high cost by high-grade skilled workmen through the use of hand bar mills.

The other respondents to said application and said Carnegie plant of the United States Steel Corporation, and other producers in the Pittsburgh district, operate continuous bar mills.

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8. Respondent established its said rolling mill at East Chicago, Ind., in 1905, knowing its production costs would be materially higher than those of mills in the Pittsburgh district, and believing at the time that such higher costs would to some extent be equalized in competition, in that as a producer of such products in the Chicago district, respondent would be able to obtain therefor the Pittsburgh price plus the freight to delivery point until and unless the production of the Chicago district would equal or exceed the consumption. Respondent believes that although the production of the Chicago district has greatly increased in recent years that for many years the consumption of such products will continue to exceed the production thereof.

### STATEMENT OF SOUTHERN BRIDGE CO.[1]

In reference to the question of base steel prices we wish to enter our protest against the present practice of using Pittsburgh, Pa., as a basing point, regardless of the production of steel at a lower or equal costs at other points.

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[1] Federal Trade Commission: *Applications*, etc., p. 81.

At present we obtain a certain proportion of our rolled-steel shapes, say 60 per cent or greater, from local mills in this district, on which we pay at the rate of Pittsburgh base plus $3 per ton.

In competition with fabricators from the Pittsburgh territory to points north we are thus placed at a disadvantage, for, assuming that our costs of fabrication are the same as fabricators in the Pittsburgh district, we are handicapped in the sum of $3 per ton in bidding on fabricated steel work to points that carry an equal freight rate between this city and Pittsburgh.

We trust that after full investigation action will be taken to place this district on the basis to which it is entitled.

### STATEMENT OF OSCAR DANIELS CO.[1]

We desire to call your attention to the manner in which southern shipbuilders are being discriminated against in the matter of prices on steel, owing to the fact that the freight differential between Pittsburgh and Birmingham, or a portion of it, is added to the Pittsburgh base price for all steel emanating from the Birmingham district.

We at the present time have a contract with the Shipping Board for 10 steel ships for which over 30,000 tons of steel were required. In billing all steel rolled in the Birmingham district the freight differential between Pittsburgh and Birmingham was added to the base price. This amounted to between $6 and $6.50 per ton on about 15,000 tons of material which was rolled in the Birmingham district.

You can readily see that in competition with shipyards in the eastern district the southern shipbuilder would be handicapped to the extent of this differential.

We have recently had occasion to get some quotations on steel both from Birmingham district and Pittsburgh district. The quotations from the Birmingham district on beams were $3 a ton lower f. o. b. Tampa than the Pittsburgh quotations, on plates $3.30 per ton, on bars $3.50 a ton lower. The freight differential between these two places is $6 a ton on shapes and $6.36 on plates, exclusive of war tax. It is therefore evident that the price of steel on the basis of these prices is about $3 higher f. o. b. Birmingham than f. o. b. Pittsburgh, and therefore adds this amount to the cost of building ships in the southern district.

The establishment of a base price for steel emanating in the Birmingham district same as that emanting from the Pittsburgh district would place the southern shipbuilder on the equal competitive footing with the shipbuilders in eastern district, and the establishment of such a base rate would work no hardship upon the steel manufacturers, as the cost of steel fabrication in the Birmingham district is lower than that in the Pittsburgh district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 99-100.

### STATEMENT OF THE UNION COTTON WAREHOUSE ORGANIZATION CORPORATION OF DELAWARE[1]

As the Union Cotton Warehouse Corporation contemplates the construction of a chain of cotton warehouses at southern points, involving the use of considerable steel tonnage, we are very much interested in the question of steel prices which you are about to investigate. According to our information, it will be immaterial to us whether we order our steel requirements from the Pittsburgh or Birmingham mills as, by reason of the single base at Pittsburgh, prices delivered at any destination are the same as from other producing points.

We have estimated that, if we could get prices at the Birmingham mills equal to the Pittsburgh mill prices, we would effect a saving of between $300,000 and $500,000 on the basis of an ultimate aggregate capacity of 2,400,000 bales for our warehouses. Engineers estimate that 28,000,000 square feet of floor space would be involved, and that on the average 7 pounds of steel bars to the square foot of building space would be necessary. Thus, with an average discrimination in steel prices of $3 per ton, the tribute we would pay to the single-base system would not be less than $300,000.

Our understanding is that steel production at Birmingham costs less than at Pittsburgh, and, if so, we see no reason why, if open competition existed, southern consumers of steel should not be entitled to the prices related to their distance from Birmingham, instead of arbitrarily being subjected to the penalty of the fictitious freight rate from Pittsburgh.

### STATEMENT OF N. & G. TAYLOR CO.[2]

Referring to the application that has been filed with you from the Western Association of Rolled Steel Consumers for the issuance of a complaint by your Commission against the United States Steel Corporation and other steel producers regarding the practice of selling steel on a Pittsburgh basing-point basis, we wish to go on record as being in favor of the present practice and opposed to any change from the method that has been in vogue for many years past of using Pittsburgh as the basing point.

We are independent manufacturers, located outside the Pittsburgh district, and firmly believe that the disadvantage of any change from the present system would greatly outweigh any benefit that might be derived by abandoning Pittsburgh as a basing point. The generally accepted method of using Pittsburgh as the basing point has been of great benefit to the trade by standardizing prices and greatly simplifying the details of buying and selling.

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[1] Federal Trade Commission: *Applications*, etc., p. 112.

[2] *Ibid*, p. 114.

The Pittsburgh basing plan is not obligatory upon anyone, and if a local mill desires to make special quotations to near-by users that is their privilege.

To abandon this uniform price-basing plan would bring about far-reaching complications and difficulties.

We are strongly opposed, therefore, to any change in the present practice.

### STATEMENT OF GULF STATES STEEL CO.[1]

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Assuming that there were no steel works in Alabama, and that all steel must be shipped into this State from Pittsburgh, the price would be Pittsburgh plus freight. If it were proposed to establish a steel works in Birmingham and the right to produce and sell steel here should be coupled with the obligation to sell at the cost of production not exceeding the cost in Pittsburgh, what inducement would there be to establish such works? Even if the cost of production were as low as in Pittsburgh, and the Birmingham producer should charge the equivalent of Pittsburgh price plus freight, the Birmingham consumer would not be prejudiced, he would not be injured, he would be paying the same price that he was before, but would have the advantage of a producer at his door who would relieve him from investing capital and carrying stocks, and would give him prompt delivery to suit his exact requirements at a moment's notice. What moral ground has the Civic Association on which to demand that the builder of steel works in the Birmingham district shall forego and relinquish any advantage that he has obtained by the location of his works in a consuming district and hand over that advantage to some consumer who has not taken perhaps 1 per cent of the risks or invested 1 per cent of the capital of the steel producer itself. I submit that the demand is nothing less than an arbitrary one to take accrued advantage from one who is a producer and hand it to one who is a consumer and who has not made the demand himself, but is satisfied with his present situation.

The idea that the Birmingham district can produce more cheaply and sell more cheaply than any other in the United States is erroneous and based upon traditions or in some cases facts which have ceased to exist, owing to changed conditions.

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[1] Federal Trade Commission: *Applications*, etc., pp. 116, 117.

In the early days of Birmingham 50 per cent ores were mined from the outcrop by handwork and transported on an average freight rate of 12½ cents per ton of 2,240 pounds to blast furnaces within the Birmingham zone. Today those rich, soft outcrops have been entirely exhausted and the hard ore is followed in some cases as deeply as to the sea level or far below it; and the district is dependent upon ore which does not exceed 36 per cent metallic iron; is hard; requires mining with power equipment, single installations costing in some cases from one-half to three-quarters of a million dollars, and after production subject to a freight rate of 50 cents per short ton of 2,000 pounds.

The best quality of coking coal in the district—the Pratt seam—has been very largely depleted, and few of the producers are able longer to rely upon it, but the greater part of the metallurgical fuel produced in the district is from "big seam" coal, which requires washing. Although the Birmingham district only produces 3 per cent of the coal of the United States, it produces 40 per cent of the washed coal of the country, the washer loss running from 12 to 25 per cent, according to the character of coal and efficiency of equipment.

The labor of the South is notoriously less efficient physically, man for man, than that of the North. This is admittedly due to climatic conditions, which, on the other had, permit cheaper housing, clothing, and feeding than in the North; and in the past, southern labor was cheaper. Now, under the strain of war, men command the same wages, regardless of their efficiency. This is especially so with reference to what is called unskilled labor.

The cost accounts on file with the Federal Trade Commission show that the South no longer dictates to the rest of the United States what shall be the price of pig iron; it is no longer able to do so. The Birmingham district is handicapped in its supply of scrap. It cannot, by reason of the incidence of railroad freights, buy from distant northern markets and bring scrap South, but the northern consumer can, and does, buy southern scrap which is on its way to the market. A buyer in Cincinnati or Chicago or St. Louis can buy in Birmingham and convert into steel at the point of ultimate consumption. If the Birmingham buyer tried to retaliate he would pay freight on the scrap going South and again on his steel products going back North and could not compete.

Thus neither in coal, coke, ore, pig iron, scrap, or labor is the Birmingham producer in any way helped or advantaged over his northern competitor. The only single advantage that he has is that he is nearer to his market, if he desires to confine himself to the sale of his products in the southern zone, and this sole advantage the Civic Association of Birmingham would ask the Federal Trade Commission to take from him and put him out of business.

### STATEMENT OF LACKAWANNA STEEL CO.[1]

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2. Lackawanna Steel Co. generally sells and since its inception has generally sold its steel products, such as structural shapes, plates, merchant bars, etc., at the market prices, plus an amount equal to the published tariff rate of freight on such products from Pittsburgh to the point of destination. The practice just described is and for many years has been the practice of steel manufacturers generally and is the growth and outcome of the natural law of supply and demand. So far as is known to this company, this has been the custom of the trade since the commencement of the steel industry for the reason that during that time the so-called Pittsburgh district has produced a majority of all the steel produced by all manufacturers in the United States. Under this custom the company is able to quote prices to any point by ascertaining the amount of the published tariff rate of freight from Pittsburgh to that point. There have been certain exceptions to the general rule in the experience of the company. At certain times when the supply has exceeded the demand, the custom has been more or less disregarded by all producers, but at a loss.

3. The freight from Pittsburgh to any given locality is necessarily an element of the market price of steel in that locality. This is so, not as the result of an arbitrary price system, but because of purely economic reasons, as follows:

Under existing conditions it is a fact that the Pittsburgh district supplies a greater amount of steel than any other district. It produces approximately 70 per cent of the whole production of the country. It is a further fact that the Chicago and tributary districts do not supply a sufficient quantity of steel to meet their own requirements, and that a substantially larger part of the requirements of these districts is supplied by outside steel-producing districts, among which the Pittsburgh district strongly predominates. This being the case, the consumer in the Chicago and tributary districts must finally, in order to obtain his full supply, call upon the Pittsburgh producer and pay the price of the Pittsburgh producer. Consequently, by the operation of natural economic laws, the market price in the Chicago district, as well as elsewhere, is dependent upon the amount for which the Pittsburgh producer will sell, and that amount is based in part on the freight from Pittsburgh to Chicago or other destination. This will hold true so long as Pittsburgh continues to have a larger output than any other district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 122-125.

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7. The company further submits that in the event of an order of this Commission merely abolishing the Pittsburgh base or merely decreeing a Chicago or other base without more, the only effect would be that the steel companies would discontinue the form of making their prices based on Pittsburgh plus published tariff rate of freight, but would charge a price which would still be in fact a price plus published tariff rate of freight from Pittsburgh, so that the action of the Commission would be nugatory.

### STATEMENT OF JONES & LAUGHLIN STEEL CO.[1]

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The Jones & Laughlin Steel Co. has shipped into the Chicago district and the western territory tributary thereto for several years past from 25 to 30 per cent of its production, and the presumption is other mills have shipped as much. It is manifest, therefore, that the Chicago district would fall far short of supplying its local market and the great territory west, southwest, and northwest. The general effect of making Chicago a basing point would be a depreciation of investment in the Pittsburgh district and a call for new and additional investment in the Chicago district. This would mean tearing down in one district, and building up in another without changing the country's total steel production and would also result in a depreciation—in some cases the destruction—of industries which have been built up in the Pittsburgh district to supply the needs of the iron and steel mills located there.

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The Jones & Laughlin Steel Co. and all other independent steel companies would be at an unfair disadvantage if Chicago were made a basing point, to say nothing of other basing points that naturally would follow because the United States Steel Corporation has large and complete producing units at almost every important steel producing point. If these points should carry their own base price, the one largest producer in the country would hold a position of advantage in every market and in some, as, for example, Duluth, Minn.; and Birmingham, Ala.; have no competition.

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[1] Federal Trade Commission: *Applications*, etc., pp. **130-131.**

### STATEMENT OF THE REPUBLIC IRON AND STEEL CO.[1]

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3. Pittsburgh, with its predominant production and variety, its cheapness of product, and also because of its many competitive producers have always naturally qualified Pittsburgh as a basing point, and for this reason the custom of selling steel f. o. b. Pittsburgh is a natural custom and an economic necessity.

4. It is true that the Pittsburgh base has not always been maintained because during periods of business depression, and for other reasons affecting demand at any given producing point where supply is in excess of demand, producers under such conditions, in order to protect their operations whether located at Chicago, Buffalo, Cleveland, Youngstown, or elsewhere, have sold and doubtless will continue to sell again at prices which discount Pittsburgh freight rates and, in fact, without profit, frequently at a loss, as in 1914 and 1915 and other periods.

5. Steel is not the only product enjoying the distinction of having a base market; in fact, the practice is quite common for such steel supplies as spelter, pig tin, coke, iron ore, and manganese, which are generally sold as follows:

Manganese, f. o. b. Atlantic seaboard.
Pig tin, c. i. f. England,
Spelter, f. o. b. East St. Louis,
Coke, f. o. b. Pittsburgh,
Iron ore, f. o. b. Lower Lake port

and in addition to these:

Flour, f. o. b. Minneapolis,
Wool, f. o. b. Boston,
Cotton, f. o. b. New Orleans,
Coffee, f. o. b. New York,
Copper, f. o. b. New York,
Plate glass, f. o. b. Pittsburgh

and other products in a like manner.

6. That the Pittsburgh base has built up excessive profits for the Chicago district mills is not indicated by the published financial statements of the respondent companies, although it may be admitted that these companies have enjoyed large profits, at times, but not unfairly large when compared with the earnings published by other companies located at Pittsburgh, Youngstown, Johnstown, Bethlehem, and elsewhere.

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8. It is further claimed that Chicago could not be made a basing point, except by an agreement which contemplated

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[1] Federal Trade Commission: *Applications*, etc., pp. 152-153.

fixing a base price, because there is no sufficient competition, variety of products, or tonnage to establish Chicago as a basing point by the free play of competition, as is the case at the Pittsburgh base, and what is true of Chicago is equally true of Birmingham, Duluth, Cleveland, Youngstown, Buffalo, and other producing points. Therefore more than one base is neither practical nor economic.

### STATEMENT OF ATLANTIC STEEL CO.[1]

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The Atlantic Steel Co. is located in Atlanta, Ga., 190 miles from Birmingham, Ala., the nearest source from which it can procure its supplies of coal and iron. The distance from Pittsburgh to Atlanta is 788 miles. When this plant was built in 1906 it was contemplated that it would have an advantage in price over Pittsburgh equal to this difference in freight from Pittsburgh to destination and from Atlanta to destination. For instance, the rate on nails from Pittsburgh to Montgomery, Ala., is 57 cents per 100 pounds, while the rate from Atlanta to Montgomery is 19 cents per 100 pounds, so that in selling nails in Montgomery this company will absorb a difference of 38 cents per 100 pounds. This practice also applies to the other products which this company makes, viz.: various wire products, bars, hoops, bands, cotton ties, etc.

Using Pittsburgh as a basing point in selling steel is a custom or practice which has been established for many years, owing to the very great advantage which it had over other sections of the country in the assembling of raw materials and the organization which it had built upon around its mills. If it should be decided that Pittsburgh can no longer be used as a basing point for steel products made in other sections of the country, it will work a great hardship upon this company, if not totally destroy its property, amounting to between $4,000,000 and $5,000,000, for it is not in position and probably never will be to compete successfully with other sections that are more favorably located with reference to raw materials. This will also apply to a very large number of small mills located in various sections of the country remote from the Pittsburgh district and which never would have been built except for the advantage which they gained by using Pittsburgh as a basing point.

The building and operation of isolated mills remote from natural sources prevents congestion and expedites distribution of finished products, besides offering to communities employment which would not otherwise be the case, but all of this has been covered in the report referred to.

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[1] Federal Trade Commission: *Applications*, etc., p. 161.

### STATEMENT OF BETHLEHEM STEEL CO.[1]

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In using the Pittsburgh base in quoting prices the manufacturer simply states to a prospective customer in a given territory in effect that the price of the product offered is so many dollars per ton plus an amount equal to the freight between Pittsburgh and the point of delivery. The use of this base gives precisely the same result to customers as if each manufacturer were to quote prices f. o. b. the point of delivery or f. o. b. mills, because in any case the ultimate price would be computed on the basis of the price at the mill plus freight to the point of delivery. The objection to quoting prices f. o. b. the point of delivery is that manufacturers would have to make extended computations based on varying freight rates. The objection to quoting prices f. o. b. mill is that similar computations would have to be made by the customers before they would be able to compare quotations. With the use of the Pittsburgh base, however, manufacturers can readily make quotations, and customers can compare with equal ease the quotations of different manufacturers, since the freight from Pittsburgh to a given point is the same for each customer.

Manifestly, if a manufacturer in the Pittsburgh district wishes to make a low price for delivery in the Chicago district in order to take the business from the mills in that district, all he has to do is to make a low price f. o. b. Pittsburgh. His freedom to make a low price is just as great when the price consists of a price at Pittsburgh and the freight to the point of delivery has to be added as when it consists of a price at the point of delivery in which the freight is included, although not shown as a separate item.

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## II

The real question raised by the petition is whether it is unlawful for a manufacturer who has mills in both the Chicago district and the Pittsburgh district to sell the products of his Chicago mills in the Chicago district at prices higher than those at which he sells the products of his Pittsburgh mills in the Pittsburgh district, although the cost of the products in both districts is the same.

As we understand the petition and the matters complained of, the real question raised is not the propriety of using the Pittsburgh base in quoting prices for rolled-steel products, but is found in the charge that the respondents discriminate in the price of such products in favor of competitors of members of the petitioner herein who are located in the Pittsburgh district or the territory east of the Chicago district and against such members and other consumers of rolled-steel products located in the Chicago district.

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[1] Federal Trade Commission: *Applications*, etc., pp. 165-169, 172.

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It is apparent that this charge against United States Steel Corporation in no way involves the propriety of the use of the Pittsburgh base in quoting prices, because the result would be the same whether the price charged in the Chicago district were (a) the price charged in the Pittsburgh district plus $5 as the freight from Pittsburgh to Chicago, or (b) a price $5 per ton higher than the price for the same product in the Pittsburgh district. The resulting price to the consumer would be the same in either case.

We are, therefore, brought face to face with the question, whether the practice of United States Steel Corporation (treating the matter as if it owned and operated the mills of its subsidiaries) in charging higher prices for its products in the Chicago district than it charges in the Pittsburgh district is in violation of section 2 of the Clayton Act. For the reason stated in Subdivision V hereof, the decision of this question will vitally affect the steel manufacturers whose mills are in other districts and the steel trade and business generally.

## III

If the practice complained of be declared a violation of section 2 of the Clayton Act the effect would be to prevent a manufacturer from taking advantage of the favorable location of his mills with respect to his competitors and the operation of the law of supply and demand, to fix prices and to restrain rather than promote competition.

It seems too clear for argument that a manufacturer whose only mill is in the Chicago district is free to charge any price he can obtain under the competitive conditions prevailing in that district, even though his profit be larger than that of the manufacturer in the Pittsburgh district who sells his product in that district or in the Chicago district, provided, of course, that the effect of any discrimination in price (if it shall not be within the exceptions stated in section 2 of the Clayton Act) may not be substantially to lessen competition or to tend to create a monopoly. Presumably the purpose of the manufacturer in locating his mill in the Chicago district was to gain an advantage over the manufacturer whose mills were located in the Pittsburgh district or elsewhere at a considerable distance from Chicago and who in making prices for the Chicago district has to consider the item of freight.

It is equally clear that the manufacturer whose mill is in the Pittsburgh district is free to make any price that may be necessary to effect the sale of his products in the Chicago district under the competitive conditions prevailing in that district, even though that price, less the freight from Pittsburgh to Chicago, be lower than his Pittsburgh price, because the effect of such sales can hardly be to lessen competition or to tend to create a monopoly. He is certainly free to make any reduction in price necessary to meet the competition of the manufacturers in the Chicago district; otherwise, there would be a restriction of competition and the manufacturers having mills in the Chicago district would have an unfair advantage.

The same results should follow in the case of a manufacturer who has plants in both the Pittsburgh district and the Chicago district. Such manufacturer should be free to secure for the products of his mill in the Chicago district the best prices obtainable under the competitive conditions in that district, even though the products of his mill in the Chicago district are sold at higher prices and at better profit than the products of his Pittsburgh mills marketed in the Pittsburgh district.

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It thus appears that the difficulty which the Chicago district fabricators experience in doing business outside of their own territory is due not to the effect of the use of the Pittsburgh base in quoting prices or to any discrimination in price on the part of the manufacturers against the Chicago district, but to the fact that their fabricating plants are located in the Chicago district, which does not produce enough steel to supply their demands, and the fact that steel shipped from Pittsburgh (from which a very large part of the steel consumed in the Chicago district must come) costs in the Chicago district several dollars more per ton to the manufacturers than steel produced at mills in the Chicago district. Such fabricators are able to compete in the Chicago district on somewhat better than equal terms with the eastern fabricators, because the freight rate paid by the eastern fabricators upon their finished product from their mills to points in the Chicago district is higher than the freight rate paid by the Chicago fabricators on the steel which enters into their finished product

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## V

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A prohibition against taking advantage of a favorable location could not be limited to United States Steel Corporation in respect of the mills of its subsidiaries in the Chicago district, and if it should be decided that none of the manufacturers in that district can be allowed to take advantage of their favorable location or, in orther words, that the operation of the law of supply and demand must be restricted, then similar applications by consumers of steel in other districts would inevitably follow with similar decisions, and similar confusion and disturbance would result all over the country.

This precedent, once established, could not be limited in its application to manufacturers of iron and steel, but on applications which would surely be made by consumers of other products would necessarily have to be applied to other manufacturers, with the result that the natural laws upon which business has been founded since the beginning of civilization would be upset. The effect of such a decision would be far-reaching. The advantages which induce investments in plants being negatived, loss of such investments to a considerable extent at least would follow and business chaos might well be expected.

Aside from any question of the legality of the system and of methods of quoting prices, have the manufacturers of rolled steel products justified the continuance of the Pittsburgh basing-point system as a matter of business policy?

## 202. CAIRO ACCESSORY COMPANY—PRICE POLICY

The Cairo Accessory Company has been organized by two young men for the manufacture of a new automobile accessory. These young men have had some experience in manufacturing and selling, but the capital available for their use is only $30,000. A large portion of this will be required for establishing the plant and for meeting current expenses. The product that they are to turn out is patented. It can readily be demonstrated that this product is superior to similar products already on the market. It will give better protection and better service to the automobile owners who install it. It will yield a substantial economy in expense to automobile owners.

It is estimated that the article can be manufactured at a cost of $4.75 for materials, labor, and other manufacturing expenses. It is to be sold to owners of cars. It must be attached by a mechanic, but it can be put on a car in less than an hour. The cost of attaching probably will not be more than $2.00. The accessory is one that is especially suited to small cars, although it may be applied to larger cars. There are several other articles in the field that perform similar services. These competitive articles sell at prices ranging from $22 to $30 each. For such accessories the retailer's gross profit ordinarily is about 30% of his selling price, and the jobber's gross profit is about 25% of his selling price.

Should the Cairo Accessory Company undertake to sell its product through the regular wholesale and retail channels? If so, for what price should the company sell to wholesalers? What should be the retail price of the article?

Should the company accept orders direct from consumers? If so, at what price?

## 203. LAKE GARMENT COMPANY—CASH DISCOUNTS

The Lake Garment Company of New York, which has a reputation for good quality and style, finds that many of the department stores to which it sells insist upon a 5% to 10% cash discount[1]. This insistence is prompted in part by the practice of these stores in charging merchandise to each department at billed cost and relying upon the cash discounts for protection against unforeseen losses or errors by department managers in pricing merchandise.

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[1] Three kinds of discounts are in common use—cash discounts, trade discounts, and quantity discounts. A cash discount is a discount given to customers for the prompt payment of bills. In the wholesale grocery trade, for example, the customary terms are 2%—10 days,

What policy should this manufacturer adopt in quoting prices to the buyers from these stores?

## 204. TANAGER BREAKFAST FOOD COMPANY—QUANTITY DISCOUNTS

The Tanager Breakfast Food Company sells its product directly to retail grocers. The goods that it manufactures are nationally advertised. The company grants no quantity discounts. The merchandise is packed twenty-four packages to a case. The case is the smallest unit of sale. These cases are sold to retailers at the same price per case whether the order is for one case or for two hundred cases, and the company pays the freight to destination.

Is the price policy of this company sound?

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net 30 days. Thus, if a customer pays his bill within ten days from the date of the invoice, he receives a discount of 2% from the face of the invoice. A trade discount is a discount from a list price. A hardware manufacturer, for example, may quote a trade discount of 50–10–5, which means a discount of 50% off the list price, less a second discount of 10%, less a third discount of 5% from the amount that remains after deducting the previous discounts. This discount has nothing to do with the time of payment or with the quantity sold. A quantity discount is a discount granted to a customer in proportion to the size of his order—the larger the order, the greater the discount. This has no reference to the time of payment. A cash discount ordinarily is granted on invoices for merchandise on which a trade discount or a quantity discount has been given.

## 205. AVON SHOE MANUFACTURING COMPANY—POST-DATINGS

The Avon Shoe Manufacturing Company sends out its salesmen twice a year to solicit orders from retailers. The company manufactures a staple line of men's shoes that sell at retail prices of $8 to $10 per pair. For the fall season, the salesmen start on the road in April. For the spring season, the salesmen take out their samples in October.

During the early part of the season the salesmen accept orders with post-datings[1]. Thus, a retailer may order 300 pairs of shoes from a salesman in May. The order is transmitted to the home office and the goods are manufactured and shipped to the retailer, reaching his store perhaps in July. The invoice for the shoes, however, is dated August 1. If the retailer pays the bill not later than August 10, he receives the regular cash discount. The bill matures August 30. This practice of giving post-datings is common in the shoe trade and in several other trades.

Why should the Avon Shoe Manufacturing Company follow the policy of granting post-datings?

## 206. DARTER & COMPANY—TRADE DISCOUNTS

Darter & Company manufacture all kinds of tire bolts and similar products. In quoting prices a trade discount system is used. A standard price list is issued to retailers and wholesalers. The salesmen quote prices to wholesalers at the list price less the trade discount, such as 60%, 10%, and 5% off. Each wholesaler in turn quotes his prices to retailers at the list prices less the trade discounts that he decides to be sufficient to provide for his normal rate of gross profit. The retailer adds his normal mark-up to the net cost of the merchandise. His retail selling price thus does not correspond to the list price. The list price merely serves as the basis from which the trade discounts are deducted.

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[1] Bureau of Business Research, Harvard University, *Bulletin No. 10, Management Problems in Retail Shoe Stores*, pp. 17-18. U. S. Department of Commerce, *Miscellaneous Series No. 34, The Men's Factory-Made Clothing Industry*, pp. 242-244.

What advantages and disadvantages accrue to Darter & Company and to their customers from the use of this trade discount system?

## 207. DENNISON MANUFACTURING COMPANY—TRADE DISCOUNTS

The following problem has recently come before the Dennison Manufacturing Company for decision. The problem is one of rearrangement of the discounts granted to customers.

The Dennison Manufacturing Company is a well-established business with its headquarters and plant located in New England. Branch sales offices are maintained in about thirty of the large cities of this country, Canada, South America, England, and Denmark. In addition retail stores are maintained in four of the larger cities of the United States. These retail stores are established primarily for promotional purposes and do not compete to any substantial degree with the retailers carrying the company's products.

The company manufactures a varied list of paper products, such as shipping tags, marking tags, gummed labels, crepe paper products, jewellers' cases, boxes, and findings. Although the company sells a large quantity of special goods direct to consumers, this problem is concerned with their regular stock goods. In these regular stock goods there are approximately 8,000 items. Most of these items are used by the ultimate consumer in small quantities, and the unit value is small. Consequently they are distributed largely through retailers.

These stock lines are catalogued and priced by the unit and in many cases also by the carton, containing six, ten, twelve, or more units. The retail price given in the company's catalogue is quite generally observed by the retail trade except in the Far West where high freight rates make it necessary to charge a higher retail price. The intention of the company is that the consumer who buys from the retail merchant shall pay the price which is stated in the catalogue. When the goods are boxed in cartons containing more than one unit, the price stated for the carton is called the list price, and the consumer purchasing a whole carton would be given this list price by the dealer. When goods are sold in less than carton lots, the unit price is slightly higher than the price per unit in carton lots. From the retail price or from the carton or list price, when that exists, the discounts to the trade are figured.

The wholesale stationer who can handle practically everything that the company makes receives a discount of 40% from the list price provided he sells not less than $200 worth of merchandise in a calendar year. Under certain conditions he may also receive in addition certain quantity discounts. The minimum of $200 is a nominal amount and is established merely as a guarantee of good faith on the part of the wholesaler.

A large portion of the company's sales of stock goods are made direct to retailers through the company's travelling salesmen. A substantial number of these retailers also carry on a wholesale business, wholesaling to smaller retailers.

A retailer who sells $500 worth or more of the company's products a year receives a discount of 40%, the same as the wholesaler. To those retailers selling less than $500 a year, a discount of 30% from the list price is given. Under certain circumstances the retailer, just as the wholesaler, may receive quantity discounts, regardless of the annual purchases. Two-thirds of the sales of stock goods are made to retailers who receive the 40% discount. Out of 10,000 dealers who carry the Dennison goods, something over 2,000 are in the 40% class, and their purchases average about $1,500 a year.

The company's salesmen call on dealers in towns of 25,000 population and up. Small purchases by dealers in these towns, however, are usually made from wholesalers because of the saving in freight. All the goods are shipped from the company's factory and the buyer pays the freight.

Numerous objections have been raised to this discount plan. In the first place, it has been suggested that there is an element of unfairness in having the amount of the dealer's profit depend on the quantity of goods which he sells for the company. Nevertheless, the requirement of $200 a year for the wholesaler and $500 for the retailer is well within the reach of those of the trade who take sufficient interest to give the line adequate display and promotive attention.

Again, while it is the company's intention immediately to advance the discount when a wholesaler or retailer reaches the minimum requirement, it is often difficult with 10,000 accounts to put the increased discount into effect as soon as the merchant is entitled to it. If the company fails to make this change at once, its oversight is resented by the merchant.

There are also frequent occasions where a merchant reaches $500 in sales one year only to fall below that amount the next year, thereby reducing his discount in the third year. After a dealer is once placed in the $500 class, he remains there until for one calendar year he has fallen below that limit. Reductions in the discount, however, are fairly frequent owing to the fluctuations in a merchant's business and also because a merchant may go over the minimum in one year due to an unusually large order for Dennison goods that he may have received from one of his customers, as, for example, from some government agency or from a railroad company.

One object of the high discount is to reward the merchant who takes an interest in this line, and it is naturally desirable from one standpoint to hold forth the inducement of the high discount as an incentive to the merchant who has not yet attained it. It has been found, however, that this stimulus is rather dangerons as it may encourage a merchant just under the line to pad his orders near the end of the year in order to go over the $500 mark. Having padded his orders in one year he inevitably runs the risk of requiring less goods the next year and thus may fall below the minimum amount.

Friction is also encountered with the merchant who may have failed to reach the minimum by only a few dollars and who claims that an injustice is being done to him when he was so near the mark. This difficulty has been particularly pronounced during the period of unusually heavy demand and the shortage of many items. Under these conditions the company has frequently been unable to ship to a merchant all the goods he ordered. Consequently the merchant has claimed that if the company had made shipments to him in accordance with his orders, he would have been well over the $500 line.

The company is embarrassed also when it comes to opening an account with a new customer. He may be in prospect a promising 40% account; perhaps he already has a large established business; or he may just be starting a business of his own on an unusually large scale because of experience that he has had in some large store.

Such a merchant believes that he is entitled to the 40% discount because of the future possibilities of his business. In many of these cases the company would prefer to give the man as great an inducement as possible to put in a full line of goods if it could be done without breaking down the established custom.

In the last few years there has been a rapid advance in prices and $500 worth of merchandise represents much less in bulk than it did in 1914. Consequently, by virtue of these high prices, many dealers are coming into the 40% class. If prices and the volume of sales go back to a more normal level, some of these merchants will again drop into the lower class.

The company is also troubled from time to time with the pooling of orders whereby two or more small dealers entitled only to 30% discount combine in ordering their goods in order to get over the $500 mark. The company cannot stop this abuse provided the combination of dealers has the goods shipped and billed to one address. The company does decline to grant the discount if such dealers ask to have the goods shipped or billed to more than one place.

One of the suggestions that has been made for the solution of this problem is to give the entire trade, both wholesalers and retailers, the discount of 40%. This would be objected to by the wholesaler as cutting off his trade with the smaller retailers. The wholesaler now sells to the smaller stores in urban districts and especially to the stores in the rural districts and small towns.

Another suggestion has been to eliminate the minimum sales requirement, to give to retailers 40% off and an extra 10% discount to wholesalers. One of the drawbacks to this plan is that numerous retailers are also wholesalers. They would immediately claim the extra discount, and it would not be long before other large retailers would be demanding the same discount as their competitors. The company also fears that the introduction of the extra 10% discount to wholesalers who are also retailers would result in price cutting.

Should the Dennison Manufacturing Company revise this discount plan? If so, how?

## 208. WINDERMERE DRY GOODS COMPANY—VARYING PRICES

The Windermere Dry Goods Company conducts a wholesale dry goods business. Its annual sales are approximately $1,200,000. The territory of this company is divided into three classes, city, suburban, and country. The city trade is that primarily within a few miles of the warehouse. The suburban trade includes the territory outside the city district but within 25 or 30 miles of the warehouse, and the country trade is the more remote district.

Each salesman in the city district has a drawing account, which is credited with 25% of the gross profit on his sales. The drawing account of each salesman in the suburban district is credited with 30% of the gross profit on his sales. The drawing account of each salesman in the country trade is credited with 40% of the gross profit on his sales. The drawing accounts of these salesmen cover both salaries and traveling expenses.

The gross profit on sales is figured on the cost of the goods delivered at the warehouse at current market prices. Salesmen are not given the benefit of an increase in the value of merchandise on hand, nor is their gross profit cut down by a decline in the market value of goods that they sell. Allowances to customers and cash discounts taken by customers are deducted from the sales before gross profit is determined. At the end of each year the ratio of losses from bad debts to sales is worked out and this percentage is deducted from the sales of each salesman before determining the gross profit on which the commission is paid.

The salesmen are given price limits on each article, a minimum and a maximum price. Within these price limits the salesman may use his own discretion in varying the price for bargaining with customers. These variations are made irrespective of the quantity of merchandise sold on each order. Numerous competitors, but not all competitors, follow the same plan of using price limits.

Should the Windermere Dry Goods Company continue to adhere to this policy of permitting salesmen to vary prices or should it adopt a one-price policy for each territory?[1]

## 209. MORNINGSIDE NOVELTY COMPANY—PRICE POLICY

The Morningside Novelty Company of New York City sells its products, which include novelties, silverware, and similar goods, exclusively by mail. Up to the present time its products have been listed in the company's catalogue at even prices—fifty cents, seventy-five cents, one dollar, and so on. Inasmuch as costs of material and labor have been subject to frequent change during the last few years, it oftentimes has been necessary to change the prices in the catalogue.

In its next revision of catalogue prices, should the Morningside Novelty Company modify its policy and quote at least some of its prices in odd figures, such as sixty-four cents and eighty-two cents?

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[1] For a statement regarding similar practices in the wholesale Grocery trade, see Bureau of Business Research, Harvard University, *Bulletin No. 14, Methods of Paying Salesmen and Operating Expenses in the Wholesale Grocery Business in 1918*, pp. 14-15.

## 210. Berkshire Piano Company—Grades of Product

The Berkshire Piano Company manufactures an exceptionally high grade of pianos. The volume of its sales is small in comparison with the volume of numerous other manufacturers. The company confines its output to a single grade of high quality. Suggestions frequently have been made that a cheaper type of piano also should be manufactured by this company in order to increase the volume of sales. The financial resources of the company are adequate, and plant facilities could readily be increased, provided the company felt that this change in policy were desirable. Up to the present time, however, the company has adhered steadfastly to this policy of producing but a single class of product.

Is this policy sound from the sales standpoint?

## 211. Beaver Hat Company—Price Policy

The Beaver Hat Company, manufacturer of men's felt hats retailing at $7, distributes its product through men's furnishing stores which have exclusive agencies. These are the only felt hats sold in these stores. Prior to the last year any hats that could not be sold at the regular price were returned by the retailers to the Beaver Hat Company, which disposed of them in job lots at points remote from the agencies. During the last year, however, the Beaver Hat Company has permitted the retail agents to have clearance sales of their surplus stocks of hats at the end of each season. At these sales the $7 hats have been sold at $5.45.

The manufacturer now proposes to manufacture hats regularly to be sold at this lower price. Although these hats will be at least equal in quality to other $6 brands, they must be made more cheaply than the $7 hats and will therefore be of lower grade. They will bear the manufacturer's brand but no price mark. The exclusive agency system is to be maintained and the $7 line is to continue as the main line of hats sold by these stores. The surplus stocks of $7 hats will be sold at $5.45 as during the past year but the grade made to sell at $5.45 will be utilized to supplement those stocks in special "sales" which will be held more frequently by the retailers.

What are the advantages and disadvantages of this new policy from the point of view of the retailers? From the point of view of the Beaver Hat Company?

## 212. SHAMROCK STORAGE BATTERY COMPANY—PRICE POLICY

School of Business Administration
Harvard University,
Cambridge, Mass.
Gentlemen:

We are the distributors and service station for the Prest-O-Lite Storage Battery for this city and territory directly tributary thereto.

The storage battery is standard equipment for thirty-three makes of automobiles, twenty of which are represented in this city. These include, for instance, the Oakland car, of which there are more than five hundred in this county alone, the Maxwell car, of which there are more than six hundred in the city, the Cole, National, Chalmers, Chandler, and others.

We are able to procure a list of all automobile licenses, the names and addresses of all owners, make of car. This makes direct circularizing very convenient.

The problem with us here, as I have also noticed at other places, is that we seldom sell direct to consumer, or at consumer's prices, thereby not making the larger profit for ourselves.

There are many dealers handling a line of cars, also proprietors of garages and automobile repair shops, in every city who do not carry a stock of storage batteries on their shelves and who therefore have no money whatsoever invested, but who expect and are receiving large discounts from distributors and service stations, like ourselves, on new batteries and repairs. But at this time I wish only to take up the problem of consumer's business on new batteries. For instance, the consumer's price on our battery is 100%; to dealers as mentioned above the price is 25% off. Therefore, if the product sells at $50, the dealer's profit is $12.50. If the actual cost to us, including only freight and drayage, is 50% off list price, our per cent of profit is 12.5%, out of which we must pay all overhead, protect the guarantee, and give a certain amount of free service.

I also find that in many instances the dealer, as mentioned above, will sell batteries to his friends or customers, to appease some ill feeling with this customer, at our price to him (25% off); in other cases he splits his discount with his customers.

It would probably be better to give the consumer a slightly lower price than to divide the profits equally with our dealers, who are using us as a convenience.

Would it be the proper thing to cut our discounts to dealers to a minimum, regulated through an association, considering at the same time the fact that our buying prices are lower than some of our competitors but somewhat higher than the prices obtained by other competitors. In the latter cases, the list price of the product is higher and the product is not so satisfactory.

Can you outline a program, from the information I have given you, that will remedy the situation?

Yours very truly,
(signed) The Shamrock Storage Battery Company

## 213. HARVARD BUREAU OF BUSINESS RESEARCH—PRICE POLICY

New York, September 15, 1919.

Harvard Bureau of Business Research,
Harvard University,
Cambridge, Mass.

Gentlemen:

Noting from the trade papers that you have issued a very interesting and valuable bulletin covering your more recent investigations into the cost of retailing groceries, known as Bulletin No. 13, as we understand it, we would appreciate very much receiving a copy thereof.

In fact, we would like to have one hundred copies for distribution with our sales organization, and will be very pleased to remit your usual price for this material if you customarily sell it to manufacturers interested in food distribution products.

We attach a copy of one of our recent circulars to retail merchants, which may be of interest to you and which will at least indicate the study we are giving to this question of economy in distribution, which to our mind can be more greatly promoted through a better organization of cooperative or trade service than through the individual of the average community undertaking to perform this specialized and daily service without the benefit of adequate equipment or decreased cost through the element of coöperation.

We are very much interested indeed in the reports we have seen of your new Bulletin No. 13, and trust we may receive the one hundred copies desired, or at least a copy for our own use if it is not possible for you to furnish us the quantity, for which we will be pleased to remit upon receipt of invoice to cover.

Yours very truly,
WYANDOTTE COMPANY
(signed) J. K. Heatherwood,
Manager.

(This company manufactures a well-known food product that is nationally advertised.)

Cambridge, Mass.,
September 22, 1919.

Mr. J. K. Heatherwood, Manager,
Wyandotte Company,
New York City.

Dear Sir:

Your letter of September 15th has been received.

We are today sending you by American Express, charges collect, one hundred copies of our new grocery bulletin. Our bill for $100 is enclosed.

We are always glad to supply manufacturers with copies of our bulletins for their salesmen but we have found it best to limit the bulk shipments to this purpose. Distribution to the retail trade through any office other than our own makes it more difficult for us to get in touch with the grocers who can cooperate and consequently retards the extension of our research work.

We greatly appreciate your interest, and we shall be glad to hear from you at any time, if there is any further information that we can give you.

Yours very truly,
(signed) BUREAU OF BUSINESS RESEARCH

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New York,
October 1, 1919.

Bureau of Business Research,
Harvard University,
Cambridge, Mass.
Dear Sirs:

Yours of the 22nd received, also your invoice of the same date for $100, covering 100 copies of your Bulletin No. 13, shipped in accordance with our request of September 15th, and we have also just received the bulletins.

However, as this bulletin appears to be a small pamphlet, the publication of which in any reasonable quantity would probably not cost in excess of 5c each, and as it has been our understanding that institutions of the character of Harvard, conducting research work along these lines for the general educational good, and without profit being the primary idea, have been accustomed to make a nominal charge to cover the cost of printing, handling, and shipping such information as is the result of their research work, we are wondering whether there is not an error in this charge of $1.00 each for 100 of these small pamphlets to be used for educational purposes as we contemplate, and before remitting we would appreciate your advice on this point.

Yours very truly,
WYANDOTTE COMPANY,
(signed) J. K. Heatherwood,
Manager.

What answer to this letter should have been made by the Bureau of Business Research?

The following statement is quoted from a circular issued by the Bureau of Business Research:

> The Bureau was established in 1911 to gather reliable, up-to-date information regarding every-day business methods and problems.

While this information is sought primarily for teaching purposes in the Graduate School of Business Administration, Harvard University, in practice it has proved to have a direct commercial value.

The results of this research are furnished without charge to merchants who cooperate in their preparation by sending in reports from their business. Because of the interest that has been shown, these bulletins have also been made available at the stated prices to other business men. The receipts from the sale of these bulletins, it may be added, are used solely to cover a portion of the expense of collecting and summarizing the data that are published.

## 214. SQUANTUM PAPER COMPANY—EXPORT ORDERS

The Squantum Paper Company produces paper that is used in the job-printing industry. The bulk of the company's output is sold in the domestic market, but it also has some export trade.

Early in 1920, the Squantum Paper Company received an order from Australia. This order, which was not large, was the first one that had been received from this Australian firm. The paper on this order was to be delivered under the manufacturer's trademark.

The Squantum Paper Company accepted the order and immediately the Australian firm doubled the order at the same price.

For domestic trade the Squantum Paper Company has a policy that it will accept orders at quoted prices only for deliveries from stock or for deliveries within a period not exceeding two months. For deliveries later than two months, orders are accepted only on condition that the price shall be determined by the manufacturer at time of delivery. This policy had not been explained to the Australian firm at the time the original order was accepted.

The Australian firm insisted that the acceptance of the initial order amounted to giving it the representation for the line. Hence it asserted that the Squantum Paper Company had at least a moral obligation to provide an adequate suply and to permit the initial order to be doubled at the quoted price.

What policy should the Squantum Paper Company have adopted?

## 215. PETERS & COMPANY—RESALE PRICE MAINTENANCE

By a series of decisions of the Supreme Court of the United States, the right to maintain resale prices has been denied to manufacturers.[1] In 1907, the Supreme Court in the case of Dobbs-Merrill Company *versus* Straus denied the right of the publisher to maintain the resale price of a copyrighted book. In 1911, in the case of Dr. Miles Medical Company *versus* Park & Sons Company, the Court held that an attempt to fix resale prices on articles of general use, except those produced under patents or other statutory grants, was against public policy and void. In 1913, in the case of Bauer Chemical Company *versus* James O'Donnell, the Court denied the right of a manufacturer of a patented article to limit the price by notice at which future retail sales of the article were to be made. This was the so-called Sanotogen case. The Court ruled that the ownership of a grant or patent did not give to the patentee the right to impose upon the purchaser of his goods any obligation, after such purchase had been made, to sell such goods only at the price named by the patentee. The essence of this decision, taken together with several supplementary decisions during the next two years, was that if a manufacturer has parted with the title to his product he cannot control the re-sale price, whether the article be patented or not.

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[1] References on resale price maintenance: P. T. Cherington, *Advertising as a Business Force.* Chamber of Commerce of the United States, *Report of the Special Committee on Maintenance of Resale Prices*, 1916. Boston Chamber of Commerce, *Referendum on Maintenance of Resale Prices*, May 8, 1916. F. W. Taussig, Price Maintenance *American Economic Review, Supplement*, March, 1916. E. S. Rogers, Predatory Price Cutting as Unfair Trade, *Harvard Law Review*, December, 1913. *Printers' Ink.*

Several bills have been introduced into Congress to grant manufacturers the privilege, under certain conditions, of maintaining resale prices. One of these bills was the so-called Stephens-Ashurst Bill, introduced in 1915. This bills was as follows:

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That in any contract for the sale of articles of commerce to any dealer, wholesale or retail, by any grower, producer, manufacturer, or owner thereof, under trade-mark or special brand, hereinafter referred to as the "vendor," it shall be lawful for such vendor, whenever the contract constitutes a transaction of commerce among the several States, or with foreign nations, or in any Territory of the United States, or in the District of Columbia, or between any such Territory and another Territory, or between any such Territory or Territories and any States or the District of Columbia, or with a foreign nation or nations, or between the District of Columbia and any State or States or a foreign nation or nations, to prescribe the uniform prices and manners of settlement at which the different qualities and quantities of each article covered by such contract may be resold: *Provided,* That the following conditions are complied with:

(A) Such vendor shall not have any monopoly or control of the market for articles belonging to the same general class of merchandise as such article or articles of commerce as shall be covered by such contract of sale; nor shall such vendor be a party to any agreement, combination, or understanding with any competitor in the production, manufacture, or sale of any merchandise in the same general class in regard to the price at which the same shall be sold either to dealers at wholesale or retail or the public.

(B) Such vendor shall file at the office of the Federal Trade Commission a statement setting forth the trade-mark or special brand owned or claimed by such vendor in respect of such article or articles of commerce to be covered by such contract of sale, and also, from time to time as the same may be adopted or modified, a schedule setting forth the uniform price of sale thereof to dealers at wholesale and the uniform price of sale thereof to dealers at retail, from whatever source acquired, and the uniform price of sale thereof to the public; and, upon filing such statement, such vendor shall pay to the Federal Trade Commission a registration fee of $10. Prices set forth in such schedule and made in any contract pursuant to the provisions of this Act shall be uniform to all dealers in like circumstances, differing only as to grade, quality, or quantity of such articles sold, the point of delivery, and the manner of settlement, all of which differences shall be set forth in such schedule; and there shall be no discrimination in favor of any vendee by the allowance of a discount, rebate, or commission for any cause or by grant of any special concession or by any other device whatsoever.

(C) Such contracts for the sale of such article or articles of commerce may provide for disposal sales at appropriate times, during which periods, duly set forth in such statement or in such schedule of prices as shall be filed by such vendor, such dealers may sell such article or articles of commerce for a price other than the uniform price as set forth in the schedule provided in the preceding paragraph (B); *Provided,* That such article or articles of commerce shall have first been offered to the vendor by such dealer, by written offer, at the price paid for the same by such dealer, and that such vendor not less than thirty days prior to the date set forth for the next disposal sale, after reasonable opportunity to inspect such article or articles, shall have refused or neglected to accept such offer.

(D) Any article of commerce or any carton, package, or other receptacle inclosing an article or articles of commerce covered by such contract and in the possession of a dealer may be sold for a price other than the uniform price for resale by such dealer for such quality and quantity as set forth in the schedule provided in the preceding paragraph (B): First, if such dealer shall decide to discontinue the sale of such article or articles of commerce, or if such dealer shall cease to do business and the sale is made in the course of winding up the business of such dealer, or if such dealer shall have become bankrupt or a receiver of the business of such dealer shall have been appointed; *Provided,* (a) That such article or articles of commerce shall have first been offered to the vendor thereof by such dealer or the legal representative of such dealer by written offer, at the price paid for the same by such dealer, and that such vendor after reasonable opportunity to inspect such article or articles shall have refused or neglected to accept such offer: *Provided,* (b) That such dealer, or the legal representative of such dealer, shall file at the office of the Federal Trade Commission a statement setting forth the reason for such sale, the refusal or neglect of such vendor to accept such offer, and the grade, quality, and quantity of such article or articles of commerce to be so sold; or, second, if such article of commerce or contents of such carton, package, or other receptacle shall have become damaged, deteriorated, or soiled: *Provided*, That such damaged, deteriorated, or soiled article shall have first been offered to the vendor by such dealer by written offer, at the price paid for the same by such dealer, or at the option of such vendor, in exchange for similar articles not damaged, deteriorated, or soiled, and that such vendor after reasonable opportunity to inspect such article or articles shall have refused or neglected to accept such offer, and that such damaged, deteriorated, or soiled article shall thereafter only be offered for sale by such dealer with prominent notice to the purchaser that such article is damaged, deteriorated, or soiled, and that the price thereof is reduced because of such damage.

Sec. 2. That the provisions of this Act shall not apply in cases of sales of such article or articles of commerce to the United States, or in cases of sales of such articles to any State or public library, or to any society or institution incorporated or established solely for religious, philosophical, educational, medical, scientific, philanthropic, or literary purposes, made in good faith for use thereof by such society or institution.

In 1919, a similar bill was introduced by Mr. Kelly. The Kelly bill required that every vendor electing to maintain resale prices in accordance with the conditions of the bill must file with the Federal Trade Commission a statement of his brand or trade-mark and a schedule of the prices to wholesalers, retailers, and the public. The bill required that prices should be uniform to each class of dealers, except for variations due to differences in grade, quality or quantity of the article sold, the place of delivery, and the terms of settlement. All these variations in prices must be stated in the schedule filed with the Federal Trade Commission.

Peters & Company manufacture tooth paste and similar toilet articles. Their products are distributed through wholesalers. The goods are made to be sold at specified retail prices, but frequently the prices are cut. Before the war the prices were marked on the merchandise and stated in the company's advertisements.

Would it be to the advantage of this company to encourage the enactment of legislation such as was proposed in the Stephens-Ashurst and Kelly bills?

## 216. MASON SHOE COMPANY—PROPOSED LEGISLATION FOR MARKETING RETAILER'S COST PRICE ON MERCHANDISE

66th CONGRESS
1st Session

S. 2904

IN THE SENATE OF THE UNITED STATES

August 23 (calendar day, August 30), 1919.

Mr. Jones of Washington introduced the following bill; which was read twice and referred to the Committee on Interstate Commerce.

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A BILL

Relating to manufactured articles intended for interstate commerce, and for other purposes.

*Be it enacted in the Senate and House of Representatives of the United States of America in Congress assembled,* That the manufacturer of any article produced after the passage of this Act, and intended to be put in interstate commerce, shall plainly mark upon or attach to such article the cost thereof.

Sec. 2. That every retailer of any manufactured article carried in interstate commerce after the passage of this Act shall put upon or attach to such article before sold to his customers in plain figures the cost of such article to him.

Sec. 3. That the Attorney General is authorized and directed to make such rules and regulations as he may deem necessary to carry out the provisions of this Act.

Sec. 4. That any violation of any of the provisions of this Act shall be a misdemeanor and shall be punished by a fine of not more than $1,000 or by imprisonment for not more than one year, or by both such fine and imprisonment in the discretion of the court.

What attitude should the president of the Mason Shoe Company take toward this bill? The company manufactures men's shoes of medium grade. The shoes are sold under the manufacturer's brand direct to retailers in the national market.

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